

A Plan for a Decade of Progress

Actions for Vermont's Economy

Vermont Economic Progress Council

2002 Report

Vermont Economic Progress Council

National Life Building

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VERMONT ECONOMIC PROGRESS COUNCIL

Glen Wright, Chair	December 15, 2002
William Stritzler, Vice Chair	To the Governor, Lieutenant Governor, Speaker of the House, Senate President Pro Tem and Members of the General Assembly:
Minty Conant	It is our pleasure to present to you the Vermont Economic Progress Council's 2002 report, "A Plan for a Decade of Progress." This is the Council's sixth annual report, and reflects recommendations based upon significant changes within the Vermont economy identified since our last report was issued in 1999.
Valerie Dahl	
Kimet Hand	A review of factors underlying Vermont's economic performance during the last decade indicates that Vermont's economic problems can be attributed to more than the national recession or other short-term factors. These problems find their roots within structural changes to Vermont's economy – problems that highlight the need to focus on base industries of strategic importance to Vermont. Vermont's economic strength and future growth prospects are heavily impacted by the vitality and performance of these industries. These industries are key to generating the economic resources that will maintain and improve Vermont's quality of life.
Chris Keyser	
Karen Marshall	
Lawrence Miller	
Joseph Pieciak, Jr.	The Council continues to support the economic vision that "Vermont is an economically and environmentally healthy place to work and live." The Council believes that each recommendation for action included within this report moves Vermont closer to long term, structural, sustainable economic growth – consistent with this vision.
Fred Kenney Executive Director	The Council expresses its thanks for the opportunity to serve Vermont in this capacity. It is our hope that the recommendations included within this report provide the critical tools necessary to create and implement effective public policy.
Michelle Hughes Special Assistant	Sincerely,
	 Glen Wright, Chair Vermont Economic Progress Council

TABLE OF CONTENTS

Acknowledgments	3
Part I: Introduction.....	4
Part II: Executive Summary.....	8
<i>Summary of Key Recommendations</i>	<i>11</i>
Part III: Recommendations for Vermont's Economy by Policy Area.....	14
1. Predictable, Customer-Oriented Regulatory Systems	15
2. A Competitive and Stable State and Local Tax Policy.....	30
3. Coordinated and Cost-Effective Economic Assistance and Community Development Programs.....	35
4. A World-Class Workforce	50
5. An Exceptional Telecommunications Network	61
6. A Fair, Predictable, and Competitive Energy Policy.....	72
7. A State Transportation System That Supports Economic Development	76
8. Science & Technology Initiatives that Stimulate Economic Growth.....	81
9. An Efficient and Effective State Government	85
10. Affordable Housing for the Workforce.....	90
Part IV: Vermont Economic Indicators.....	98
Part V: Appendices	
A - Glossary of Acronyms.....	107
B - 2002 Long Range Economic Planning Process.....	108
C - VEPC Long Range Planning Enabling Legislation.....	110

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The Vermont Economic Progress Council would like to thank the many individuals both in the public and private sector for their help in putting this report together, especially those who provided testimony (listed in Appendix B), state agencies and departments for their participation and the SBDC for help with the public hearing. VEPC would also like to acknowledge the efforts provided by Chris D'Elia, Commissioner of the Department of Economic Development, and his economic development team, and to Jeff Carr, Larry Copp and Karen Robinson at Economic and Policy Resources, Inc. Special thanks to Terri Picard, Lynda Royce, M.D. Huddleston, Shari Duncan, Kathy Holt, Diane Ford, Judy Parsons, Denise Diehl, Cindy Blondin, and Dave Coburn for clerical support provided within the Agency of Commerce in the preparation of this report. Finally, we wish to give special acknowledgment to the leadership team at the Agency of Commerce with whom VEPC has worked over the past year, including former Agency Secretary Molly Lambert, Secretary Steve Patterson, John Kessler, and Kathy Fisher.

PART I: INTRODUCTION

The *Vermont Economic Progress Council* (VEPC) was established in 1994 by the General Assembly to build upon Governor Howard Dean's 1993 Executive Order to form a long-term economic planning group for the state. The Council is charged with creating, maintaining and participating in the implementation of a ten-year economic development plan for Vermont and annually reporting to the Governor and the General Assembly on recommendations for implementing the state's long-term economic development planning agenda.

In March of 1998, *VEPC* was also given the responsibility of implementing and administering the Economic Advancement Tax Incentive program, a set of income, sales, and property tax incentives designed to advance the creation of new jobs and new investment in Vermont. A separate annual report is filed with the General Assembly detailing the activity of the incentive program.

As a result of the legislation creating the incentives program, the Council was reconstituted. The Council now consists of nine voting members, appointed by the Governor, who represent various business backgrounds and geographic regions of the state. There are also 24 regional representatives designated by the regional development corporations and regional planning commissions who work with the Council when reviewing applications to the incentive program and developing this report.

In its 1996 report, *A Plan for a Decade of Progress*, the Council laid out a ten-year plan for economic progress, including 56 policy recommendations and a timeline of action steps. The report also included goals for the Vermont economy and reviewed the status of the Vermont economy through indicators and an overview of

economic sectors. The recommendations were made in relation to nine policy areas affecting the economic growth of the state:

1. Predictable, customer-oriented regulatory systems
2. A competitive and stable state and local tax policy
3. Coordinated and cost-effective economic assistance and community development programs
4. A world-class work force
5. An exceptional telecommunications network
6. A fair, predictable and competitive energy policy
7. A state transportation system that supports economic development
8. Science and technology initiatives that stimulate economic growth
9. An efficient and effective state government

In its 1997 and 1999 reports, the Council provided an update on progress made toward implementing the 56 recommendations included in the 1996 report. Also included was an update of the economic indicators and an economic vision for the state. This 2002 report is meant to:

- Restate the goals for Vermont's employment, wages, per capita income and quality of life and report on their current status;
- Give an overview of Vermont's economic and business condition;
- Update progress made on the Council's previous recommendations;
- Provide new recommendations for action to help build a healthier economy; and
- Update the economic indicators.

To help prioritize the issues covered by this report, the Council solicited input from over 300 economic and community development practitioners and business groups and polled the attendees at its August 2001 retreat to determine whether the long-range plan addresses the appropriate set of policy areas. This input pointed to

four priority areas, three that had been addressed in the past - The Regulatory System (particularly permitting), Workforce Development, and Telecommunications - and one that had not been covered in previous reports - Housing. Based on this input, the Council decided to update all the issue areas in the report, but focus on the four issue areas outlined above. Between May 2001 and September 2002, the Council held 12 hearings with 35 witnesses on these issues, solicited input and comments from a wide variety of sources on the entire report, and held a public hearing on the draft report (see schedule at Appendix B).

Given the economic situation currently facing the state, especially the loss of over 5000 manufacturing jobs, the Council subsequently decided to combine the recommendations from these four policy areas with several recommendations focused on enhancing Vermont's economic development policy and programs. The resulting recommendations, which are summarized at the end of the Executive Summary, are structured to present a comprehensive long-term strategic economic initiative.

GOALS FOR VERMONT'S ECONOMY AND THEIR CURRENT STATUS

The Council's recommendations have always aimed at helping to meet three basic economic objectives for Vermont:

1. Unemployment not to exceed 4%
2. Wages and per capita incomes equal to or exceeding U.S. national averages
3. Maintain and improve Vermont's quality of life.

Full Employment

In 1993, the Council determined that creating 66,000 jobs over the next ten years, or about 6,600 jobs per year would be sufficient to keep Vermont's unemployment rate at no more than 4%, the rate economists generally define as "full employment." Between 1994 and

2001, the Vermont economy generated 24,350 net jobs. Although the rate of net job creation did not maintain a rate of 6,600 jobs per year, the unemployment rate remained at or below 4.0% between February 1999 and November 2001, and below 5.0% since March of 1997. However, in November 2001, the state's unemployment rate rose to 4.2% and since that time has exceeded the rate of 4.0% in three of the past ten months.

Average Wage and Per Capita Income

In 2000, Vermont's average wage of \$28,694 was 81.3% of the national average, which was down from 81.9% in 1999. Vermont's average per capita income averaged \$27,376 in 2000, a 1.3 percentage point increase in its standing versus the national average since 1996. Preliminary estimates for calendar 2001 show an increase to \$28,594 or 93.8% of the national average. At 93.8% of the U.S. average in 2001, per capita income in Vermont was at its highest level since 1989 when it was 94.3% of the U.S. average. However, with the heavy loss of manufacturing jobs and steady growth of jobs in the service sector which earn an average of \$18,000 less, these gains in average wage and income may be reversed.

Maintaining Vermont's Quality of Life

Measuring quality of life has always been a difficult task and requires more subjective judgments. Vermont continues to be an exceptional place to live, noted for its traditions, heritage, and sense of community. This third goal is essential to Vermont's future, and one that must be maintained and enhanced.

RESTATEMENT OF GOALS

The long-term goal of economic development should be to improve the economic well being of the state's citizens. The first goal should be to arrest and reverse the detrimental structural economic trends identified in the Executive Summary and reestablish a sound foundation for the Vermont economy. Any steps taken to meet that goal should include strategies to address the concerns of doing

business in Vermont. Subsequently, we should refocus the goals stated above and in previous VEPC reports so that they recognize adverse economic trends and set goals that address them.

Full Employment

The Council believes that a better measure of employment is to index the Vermont annual rate of unemployment to some level below the national average, just as we do with income and wages. To that end, the Council proposes to change the goal for full employment to 3%, which is the DET stated goal, and track how well Vermont maintains a rate that is 1 point or more below the national average. For the period 1990 to 2001, Vermont remained 1 point or more below the national unemployment level for seven of the 12 years.

The Council believes that in addition to tracking the overall growth in job creation, we should include a goal of growth in the kinds of jobs that raise the overall standard of living. These are generally jobs in Vermont's current and emerging strategic industries. A high level of growth in these industries will stimulate growth in other jobs throughout the economy. Vermont should maintain a goal of 6000 net jobs per year. In addition, to recapture jobs lost and add the jobs required to maintain Vermont's share of the nation's long-term job growth in Vermont's strategic industries, Vermont needs a total of nearly 29,400 net new jobs in these sectors by 2012.

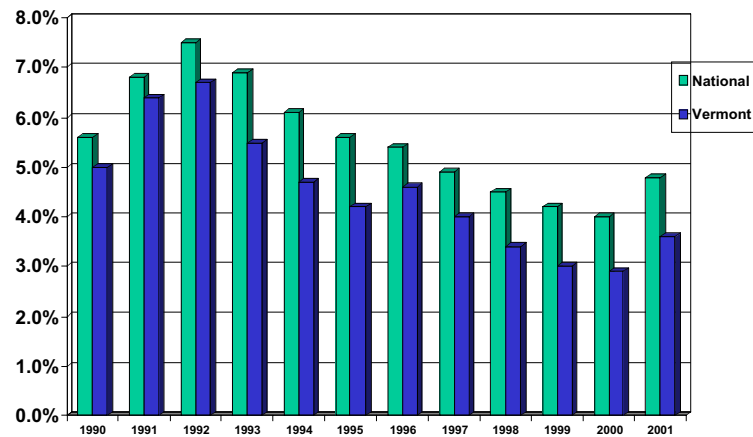
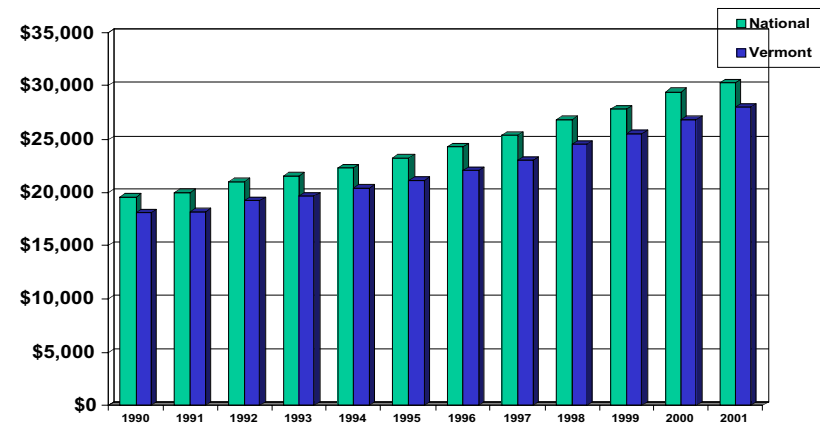
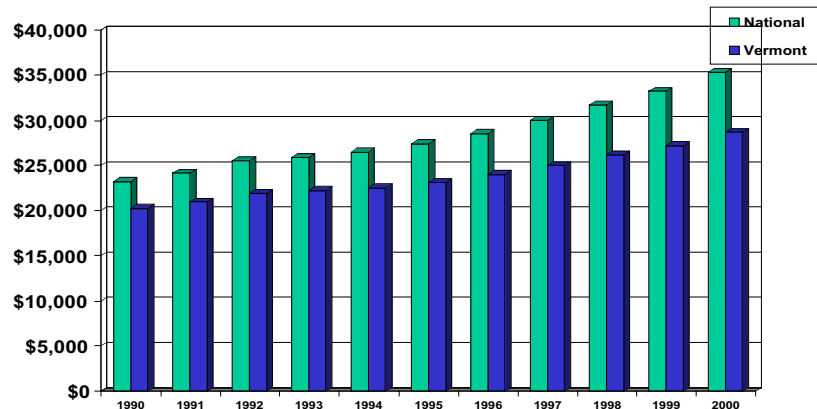
Average Wage and Per Capita Income

When the Council first set these goals, wage goals were set using averages as the statistical measure. Average wage levels can be skewed by a relatively small percentage of very high wage earners, giving the impression that "average" persons are better off than they actually are. Median measures represent the true mid-point of a sample, but this data was not readily available when these reports were first started.

Because median measures are now available, the Council will start citing data using median wage.

Maintaining Vermont's Quality of Life

The Council believes that there is more to the make up of Vermont's quality of life than our beautiful vistas, open farmlands, and clean air and water. It is all of these, but it is also rewarding employment with appropriate compensation, entrepreneurial opportunity, quality, life-long educational opportunities, available and affordable housing, recreational, cultural and leisure opportunities, and a strong sense of community. The Council believes that quality of life and quality jobs are not an "either/or" proposition – and, in fact, are inextricably linked.

National and Vermont
Unemployment RatesNational and Vermont
Per Capita IncomeNational and Vermont
Average Wages

PART II: EXECUTIVE SUMMARY

VERMONT'S ECONOMY

Vermont's private sector economy is fairly diverse for such a small state. It consists of four major sectors that drive the economy: manufacturing; hospitality and tourism; agriculture and natural resource-based production; and education/health care.

These four sectors not only drive much of the economy, they are also major elements of Vermont's brand. They need to be simultaneously marketed as such and encouraged to grow and prosper to maintain the vitality of our overall economy. All are important to generating a variety of jobs. All are vital to continuing our traditions and values. And all are critical to maintaining and improving our quality of life.

The Council has included recommendations in this report that impact each of these individual sector groups. More importantly, the recommendations are meant to address, either directly or indirectly, some broader issues affecting Vermont's economy and overall competitiveness:

- Structural changes impacting our strategic industries;
- A challenging business climate; and
- Our quality of life at risk.

After more than a decade of record growth, the Vermont economy followed the national economy in a period of decline from early 2001 to the present. While the national economic downturn appears to be over and a moderately paced recovery has started, according to state economists, there does not yet appear to be a corresponding recovery in Vermont. The Vermont economy is still losing jobs in every region of the state across a broad array of industries, many among the state's most notable employers - companies that have never been associated with cyclical job reductions in the past.

This is partly due to the fact that many of these losses were a result of structural changes, such as corporate realignments and consolidations, and are therefore, not related to business cycles. But the downturn in the economy is what causes companies to strategically look at their operations and make adjustments.

The same is true for our economy. We are at the end of a distinct business cycle, census data that is aligned with that cycle is available, and a severe downturn in the economy are all creating the requirement and opportunity to examine the underlying structural changes taking place in our economy.

During the business cycle that incorporates the last decade, Vermont had reasonable job growth, very good personal income growth, substantial fiscal surpluses, and a favorable unemployment rate. But these positive factors masked the underlying structural and systemic issues impacting our economy, especially in comparison to national trends. It is the structural issues that will dictate the future of our economy in the long-term and are therefore the concern of the Council and this report.

STRATEGIC INDUSTRIES

Key to appreciating that there are systemic issues with the Vermont economy is an understanding that the structure of a region's economy is critical to its performance and long-term competitiveness. There are differences between industries in a region's economy with some providing a leading and others more of a supporting role.

Base industries are those that play a significant role in the region's economy because they are the economic drivers or engines of a state or regional economy. They are often referred to as strategic because a state or region's economic strength and future growth prospects are determined by the vitality and performance of these industries. Base industries of strategic importance to the Vermont economy are those that simultaneously demonstrate base industry characteristics - high

multiplier effects (they circulate dollars through the economy because they produce goods and services within the region that are sold outside the region), and strong customer/supplier links within the region - and have additional, desirable industry characteristics such as higher than average wage levels, high productivity, and employment significance and concentration. In 2000, 54,500 job opportunities were located in the base industries of strategic importance to Vermont, representing 84% of the 65,100 base industry jobs during that year.

An examination of the performance of Vermont's strategic industries during the past business cycle (1990 – 2000) points to some of the serious systemic problems facing Vermont's economy:

- Vermont has under-performed in 12 of 25 strategic industries compared to the nation as a whole. Five of the base industries lost jobs and another seven grew but at rates well below their national counterparts.
- Of the jobs gained by strategic industries during the last business cycle, 2/3 paid wages averaging below 2/3 of the national average wage. Vermont added the most jobs during the 1990s in base industries where the average wage is dramatically lower than their national industry counterparts.
- More than 10% of Vermont's strategic industry jobs are tied to industries in long-term decline. Too many working Vermonters depend on declining national industries for their livelihood.
- There is a growing disparity between Vermont's regions that is creating two realities – one with increasing opportunity and choice, and one without. The disparity in income and job opportunities between the geographic regions of the state is accelerating -- perpetuating a cycle of decline, and escalating out-migration.
- Vermont's future is at risk as the state loses its young people at a rate more than three times the national average. The loss of so many younger working age Vermonters at a rate so much faster than the national average reduces the availability of skilled

workers forcing Vermont businesses to hire from out-of-state or relocate where workers are available.

The most disturbing aspect of these trends is that they emerged during a period of unprecedented economic expansion.

The particular industries that comprise each of the state's base industries at a given moment is of relatively little importance for the purposes of this VEPC report because strategic industries will change over time. What is of great importance is recognizing the characteristics of strategic industries and tracking the state's current and emerging industries to better understand the competitive circumstances of those strategic industries. With that knowledge, the state can develop strategies and policies to strengthen those industries and direct economic development resources to achieve the highest value return on investment.

VERMONT'S BUSINESS CLIMATE

In addition to these structural economic trends, there is evidence of dissatisfaction with the business climate in Vermont. Many of these problems may be based on perception and the perpetuation of those perceptions, even if they are incorrect. However, comments made in different venues, such as the study commissioned by the Department of Economic Development entitled, "Brand Identity of Vermont as a Place to Do Business" done by the O'Neal Group (February 2001), the Chittenden County 2020 Summit in October 2001, the hearings held by VEPC for this report, and numerous company visits by state and regional economic development officials, all point to the same set of issues frustrating business owners in Vermont.

Whether real or perceived, the list of issues raised by Vermont businesses is not surprising. The priorities may change from business to business, sector to sector, or as the economy puts pressure on the bottom line, but over time, the list continues to include:

Permitting processes Worker's compensation
 Regulatory environment Healthcare costs
 Workforce retention Energy costs
 Workforce skills and ethics Business taxes
 Telecommunications Housing availability
 Personal taxes Availability of capital
 Property taxes/Act 60 Air travel
 Highway system Childcare

The Council views these issues as challenges, providing confirmation of the areas in which there is opportunity for improvement. But of greater importance is how we, as a state, address the structural issues impacting our economy and begin to balance the various elements that sustain our quality of life to regain a competitive edge.

BUILDING ON VERMONT'S STRENGTHS

Vermont has many economic attributes that can be utilized and built upon to create and maintain a competitive economy:

A diverse economy: For our size, Vermont has a fairly diverse economy when viewed by sector, size, ownership, and types of jobs.

A skilled workforce: Vermont has a highly skilled workforce in a diverse range of specialties and a wide range of education options to train workers in traditional or new and emerging industries. Additionally, the state has had a high level of in-migration, many of whom are highly training professionals. The recent layoffs of many trained employees from manufacturing and high tech production jobs provides an opportunity for increased entrepreneurial development.

Entrepreneurial spirit: Vermont has always been known for the independent and hardworking nature of its people. The state has many firsts in industry to its name and Vermont's entrepreneurs are known for their innovation and ingenuity.

Central location to markets and transportation: Vermont is centrally located to many large consumer markets such as Montreal, Boston and New York providing potential for marketing Vermont's brand - our reputation for quality products, services and as a tourism destination.

Political and business leadership: Vermont has a well-developed, decentralized network of business organizations and forums and very accessible political leaders on the local, state and federal levels.

Great quality of life: Our quality of life is obviously what draws visitors to our state and keeps and draws employers and employees here. The marketing value of the Vermont "brand" helps our products outsell other products of lesser price and equal quality.

ECONOMIC VISION FOR VERMONT

Developing and updating a ten-year economic plan for Vermont is an ongoing process. Critical to that process is a vision for change. The Council has maintained, as part of its long-range economic planning, an economic vision for Vermont that states:

"Vermont is an Economically and Environmentally Healthy Place to Work and Live"

Central to this vision is a sustainable and diverse economy that provides opportunities for businesses to prosper, and its citizens with stable, fulfilling, and justly compensated employment, thus contributing to the overall quality of life, while protecting our natural resources, sense of community and historic values.

The underlying economic trends outlined above and the attitudes of business owners regarding doing business in Vermont show that Vermont is losing valuable economic ground. *Subtly, but significantly, we are putting our quality of life at risk.*

Sustained prosperity is the only option to provide working Vermonters and their families with expanding opportunity, increasing income, environmental protection, and the type of social safety net that has become synonymous with Vermont's high quality of life. For the very same reasons we need to treat our natural environment with care and respect, we need to cultivate and nurture our economic environment, as they are inextricably connected.

ATTAINING THE VISION

With the heightened level of global competition and the increasingly fast paced change of the new economy, it is imperative that Vermont gain consensus on the trends undermining our economy so that we can capitalize on our strengths to increase competitiveness.

The challenge for the state – the business community, public sector, non-profits, and the general public – is to find the balance of policies and strategies that keeps us heading toward the shared vision of Vermont as an economically and environmentally healthy place to work and live. Attaining this balance is not an either/or proposition. We can have economic development that bridges the gap between the haves and have-nots. We can have economic development that benefits all regions of the state. And we can have strategic economic development and maintain our commitment to the environment.

Reaching consensus on the problems and developing and implementing solutions will require sustained leadership. Leadership must come from the top down in the new administration and from the legislature, both of whom support and furnish the tools to all who care about Vermont's future to work in concert and realize our common vision.

We present in this report recommendations that the Council believes will begin to directly address some of the trends undermining our economy, indirectly deal with the business climate issues, and continue efforts to meet the Council's stated goals and attain the vision expressed above. The recommendations also represent an

approach to help the state succeed in the emerging knowledge-based global economy. The recommendations should be viewed as a sustained, long-term investment in economic development.

Details on the following summarized key recommendations and additional recommendations follow in Part III, *Recommendations by Policy Areas 1- 10*. That section also includes updates on past Council recommendations.

SUMMARY OF KEY RECOMMENDATIONS:

Infrastructure Investments for a “High-Performance” Economy: Facilitate the development of essential basic infrastructure to aid in the movement of people, products, and information to support the creation and retention of quality job opportunities:

- Provide at least \$200,000 annually for the full development and continuous refinement of the strategic industry study initiated by the Department of Economic Development and utilize the results to target limited economic development resources.
- Establish and fund, with an annual authorization of \$5 million from the Property Transfer Tax, a quasi-governmental agency modeled after the Vermont Housing Conservation Board, with the responsibility to work with the economic development community to locate, acquire, and pre-permit economic development sites in all regions of the state.
- Establish and capitalize at \$4 million, an infrastructure development revolving loan fund to provide below market interest rate loans to appropriately leverage the expansion of transportation, water, waste water, utilities and telecommunications infrastructure.
- Modify the VEPC capital investment incentives to double the level of eligible credits for applicants in the 25 base industries of strategic importance to the state.
- Modify the sales and use tax exemption on fuels used in the manufacturing process to include all aspects and functions of the business, not just those directly attached to the production of

goods for the 25 base industries of strategic importance to the state.

- Complete an inventory of underutilized and abandoned buildings and sites.
- Appropriate state funds to the Brownfields Revitalization Fund to support and promote brownfield re-development in Vermont. Utilize \$75,000 to fund a study and development of an implementation plan to address the obstacles to the redevelopment of brownfield sites in Vermont.
- Commission and fund a comprehensive, independent review of local and state land use regulation and permitting systems and processes by a nationally recognized organization.
- Recognize the importance of telecommunications issues, designate senior staff to coordinate state policy, and provide resources to a lead organization to develop a comprehensive work plan, benchmark successful efforts in other states, and coordinate efforts to implement the state's telecommunications and information technology action steps.
- Explore the state's role as part of a public/private aggregate purchasing telecommunications services.
- Change the state policy of building closed networks for state government, such as telecommunications infrastructure for public safety and education, and make the infrastructure available to expand deployment of broadband to hard-to-serve areas of the state.
- Immediately create a single portal to all government services that incorporates already existing online service efforts and initiate the availability of credit card transactions for government services, discounted fees for online transactions, interactive on-line applications for services and permits, and work-at-home opportunities for state workers.
- Facilitate the rapid implementation of efforts by state, regional and local government entities to utilize online services.
- Give the preservation and maintenance of existing transportation infrastructure first priority, but ensure that the infrastructure is put

into place to support increasing the vitality of the economy and to encourage future economic growth by taking steps to support the completion of major transportation projects that are vital to the economic vitality of the state.

- Develop a 20-year multi modal long-term transportation improvement plan for the Route 7 corridor including commuter and other rail alternatives to address surface transportation needs of this vital north-south corridor.

Knowledge-Based Investments for the Future: Develop and maintain an adequately trained workforce to support business development and retention consistent with the state's orientation toward competing in high value-added or knowledge-based markets.

- Fund and implement the strategic industry research by the Department of Economic Development and utilize the results in workforce development investment strategies.
- Fund a long-term plan for developing and operating technical education centers in addition to those already under development.
- Increase state appropriation levels for higher education.
- Fund, at \$225,000 each year for not less than five years, five new professional development staff at institutions of higher education throughout the state to be job training and curriculum development professionals focused on workforce development training.
- Increase the annual state appropriation for the Vermont Training Program (VTP) to \$1,000,000 beginning in FY 2005. Earmark 50% of these funds for job retention and retraining, and 50% for support of proactive development and redevelopment of Vermont strategic industries. Also, amend the statute authorizing the VTP to extend its impact beyond manufacturing.
- Expand the DET Registered Apprenticeship Program to develop a formal Vermont apprenticeship program for specific skills sets required by Vermont's strategic industries.

- Appropriate \$1,000,000 beginning in FY 2004 to facilitate the implementation of new training programs identified by regional workforce training plans.
- Re-design the workforce development tax credit in the Economic Advancement Tax Incentive program to provide meaningful leverage to support private sector investments in job training and workforce development.

Build a Climate of Innovation for Entrepreneurs: Encourage increased entrepreneurial activity in Vermont and facilitate a supportive environment for innovation.

- Charge the newly created pre-permitting agency with the responsibility of developing five regional small business incubators to support technology transfer as part of its site development work.
- Increase the annual state appropriation for the Regional Development Corporations to \$1,250,000 beginning in FY 2004 with additional funds used to support fulltime positions focused on business development.
- Create and market a network of services targeted specifically toward entrepreneurial development with a menu of services allowing for different levels of involvement from which the entrepreneur can select, including a mentoring/advisory network and processes for accessing financial resources through venture capital and angel investor groups.
- Increase the annual state appropriation for the Government Marketing Assistance Center (GMAC) to \$600,000 in FY 2005. Also, establish a fee structure for certain GMAC services.
- Increase the annual appropriation for the Vermont Manufacturing Extension Center (VMEC) to \$595,000 beginning in FY 2004.
- Increase the annual appropriation for the Vermont Small Business Development Center (SBDC) to \$600,000 beginning in FY 2004 to increase the number of staff and the number of satellite in-take offices, especially in underserved areas.
- Increase the annual appropriation of the Vermont World Trade Office (VWTO) to \$500,000 by FY 2004.
- Establish a sustainable source of funding dedicated to recruitment efforts by the Department of Economic Development and direct all state agencies, departments and funded partners to engage in cross marketing.
- Examine various retention incentives designed to keep the state's current employers and emerging industries in Vermont.
- Appropriate \$1.5 million in FY2004 one-time funds to VEDA to capitalize a Mezzanine or Subordinated Debt Financing Program.
- Appropriate, in FY 2005, \$1million to VEDA to strengthen its Small Business Loan Program to provide low cost capital to Vermont entrepreneurs.
- Continue state support of the Vermont Technology Council and expand the charge of the Technology Council to include a more representative set of Vermont strategic base industry sectors by providing a one-time appropriation of \$200,000 in FY 2005 to fund development of two additional Centers of Excellence to support the on-going development of the state's strategic base industries.
- Increase state support for the University of Vermont by providing \$500,000 for the purpose of enhancements in applied research and technology transfer in the College of Medicine.

Please refer to Part III for details on these and other important issues and recommendation.

PART III: RECOMMENDATIONS FOR VERMONT'S ECONOMY BY POLICY AREA

The Council is charged with making recommendations to improve Vermont's economy. Thus, this section appropriately comprises a majority of the report. Each section includes an Introduction, 2002 VEPC Recommendations, and updates to previous recommendations. This background information aims to bring the reader up to date on the Council's and other groups' work with these initiatives and how implementation is progressing. The four policy areas on which the Council focused this year – Regulatory, Workforce Development, Telecommunications, and Housing - each also contain a Summary of Major Issues and Objectives of Recommendations.

The Report includes ten policy areas, nine of which have been covered in past reports. This report adds Policy Area 10 – Affordable Housing for the Workforce. The policy areas are as follows:

- 8. Science and technology initiatives that stimulate economic growth**
- 9. An efficient and effective state government**
- 10. Affordable housing for the workforce.**

- 1. Predictable, customer-oriented regulatory systems**
- 2. A competitive and stable state and local tax policy**
- 3. Coordinated and cost-effective economic assistance and community development programs**
- 4. A world-class workforce**
- 5. An exceptional telecommunications network**
- 6. A fair, predictable, and competitive energy policy**
- 7. A state transportation system that supports economic development**

Policy Area One

Predictable, Customer Oriented Regulatory

INTRODUCTION

Most businesses and business groups accept and even support some degree of state regulation that sets standards for public and worker safety, historic preservation, land use, and environmental protection. They are willing to endure some level of regulatory oversight, permitting processes, and enforcement. However, there is a consistent message from the business community in Vermont that the regulatory system is complex, time consuming, and a challenge to most economic growth. The Council heard from many sources that the business community can abide by any rules as long as they are clear, consistent, and fair.

Challenges of regulation and permitting were identified as the most important by the attendees at the August 2001 VEPC retreat and in a survey regarding this report by VEPC of over 300 economic and community development practitioners and business organizations. Also, in the O'Neal Group "Vermont Brand Study," the permitting process was cited as the biggest disadvantage to operating a business in Vermont. Reform of permitting processes were also the number one change businesses want most from state government. Over-regulation was one of the top reasons given in a list of attributes underlying the perception of 63% of the respondents that Vermont is "somewhat difficult or very difficult to do business in."

The Council realizes that businesses face these challenges everywhere; they are not unique to Vermont. However, the Council feels that the input on regulatory and permitting issues, whether real or perceived, were provided to the Council and in other venues as honest opinions. The main objection seems to be that in too many cases the benefit of a regulation, including the process to conform to

it, does not outweigh the costs of imposing it. The Council believes the governor and legislature must take the opportunity to address these challenges.

The importance of the regulatory and permitting issue is tied to the fact that it cuts across so many other policy areas that are of concern and are addressed in this report. It is an issue for economic growth, housing development, telecommunications, transportation, and an efficient state government.

There is a myriad of statutes, rules, regulations, and permits on the local, state, and federal levels that affect business. As with past reports, the Council concentrated on the areas that have the most interaction with business. That is, those administered by local permitting bodies, the Agency for Natural Resources (ANR), the Environmental Board (E-Board), and Labor and Industry (L&I).

SUMMARY OF MAJOR ISSUES

Regulation – The voluminous statutes, rules and regulations affecting business are onerous. In some cases, as new statutes are written and the resulting rules promulgated, efforts are made to review or remove existing rules from the books. This process occurs over an extended period and results in changing regulatory requirements that can be confusing. Also, there is little or no prioritization among the issues underlying the permits or against other state priorities.

Regulatory Process – The process of applying, interpreting, and enforcing regulatory rules and regulations is often confusing and sometimes intimidating. There is limited access to technical assistance, especially for small businesses.

Levels of Regulation – There are some regulatory processes that have multiple layers of regulation and approval processes, and appeals that are duplicative.

OBJECTIVES OF REGULATORY REFORM

The Council sees four fundamental objectives for any regulatory reform:

1. ***Cut down on the volume of statutes affecting Vermont businesses.*** The example set by S. 27 (2002), the on-site septic systems bill, should be followed. That bill consolidated four existing statutes into a single permit system.
2. ***Cut down on the volume of rules and regulations.*** Fewer statutes should result in fewer rules and regulations. Existing rules need review and streamlining as well.
3. ***Make the operation of rules more customer- friendly.*** This can be done by asking several questions during the review process _
 - Does the rule provide cost-effective compliance?
 - Is information about permitting procedures readily available and understandable?
 - Are the employees who interpret the statutes and enforce the rules properly trained and motivated to carry out their jobs in a customer-friendly manner?
 - Are the rules consistently applied, so that the process is predictable and fair?
 - Is the permitting sequence rational and efficient, so that approval decisions are not unduly extended?
4. Maintain a balance between the desire for the protection of our environment, traditions, communities, and workers and the requirement for appropriate economic growth to support and maintain our overall quality of life.

2002 VEPC RECOMMENDATIONS

Regulation and Housing

- ***The recommendations below have a special urgency if the state is serious about the provision of adequate affordable housing.***

Please refer to Policy Area 10 for recommendations specific to housing.

The permitting and regulatory issues outlined here have an impact on all types of development in the state. The Council recognizes the special impact these issues have on the development of housing and has therefore added a new policy area of discussion. Please see Policy Area 10, Affordable Housing for the Workforce, for details on the development of housing. The recommendations below have a special urgency if the state is serious about the provision of adequate affordable housing in Vermont.

Finding Balance in our Quality of Life

- ***Convene a summit on the future of Vermont, focusing on establishing a balance between the elements making up our quality of life and determining what steps need to be taken to reach that balance.***

The Council recommends that the next Governor consider that the appropriate economic and housing development required to maintain our quality of life and sustain sufficient revenues to support the environmental protections and social programs we all support cannot occur under the current regulatory system. There has to be leadership to establish and implement the steps the state must take to attain a balanced quality of life – one that protects our environment and resources and positions the state to weather economic downturns, provide new well-paying jobs and entrepreneurial opportunity and keep the state competitive in the new economy. It is not an either/or question. Only balancing and respecting all aspects of our quality of life will ensure that the quality continues. Therefore, the Council recommends that the Governor convene a summit on the future of Vermont, focusing on establishing a balance between the elements making up our quality of life and determining what steps need to be taken to reach that balance. Without an articulated strategic vision, every issue is fought out at the tactical level. The series of meetings that resulted in a consensus agreement of the storm water issue should

serve as a model. The success of that process shows what can be accomplished. If that type of process can be applied to the overall question of balancing the elements of our quality of life, then there will be less need for litigation and legislative wrangling on each individual issue or project. The Council realizes that a summit such as this may not have immediate results, such as legislative changes to the land use permitting systems. But it can provide a strategic vision for accomplishing incremental change over time.

Comprehensive Review of the Land Use Permitting System

- ***Commission and fund a comprehensive, independent review of local and state land use regulation and permitting systems and processes by a nationally recognized organization.***

After the State of Vermont enacted Act 250, the federal government enacted many protections of air and water quality and endangered species protections that were already in place on the state level. When the federal government delegated authority to enforce the new policies to the states, there was never a comprehensive review conducted to avoid duplication. While some issues are covered by a presumption of compliance, we now have 30 years of rules and regulations that include some reviews for individual permits that are repeated if the project requires Act 250 review.

At the time Act 250 was adopted in 1970, most towns did not have any planning or zoning. There was almost no environmental review at all, so we needed a statewide land use review system. Now however, of some 267 municipalities, 202 (76%) have approved plans, 195 (73%) have zoning bylaws, and 122 (46%) have subdivision regulations.

The need for strong local and regional land use planning as guides to good land use is laudable and accurate. That being said however, Vermont has not explored in any serious way the influence Act 250 has had on the nature of local and regional planning. The imposing strength of a statewide land use permit process as robust and

expansive as Act 250 contributes to the inherent tension arising from the need to use a town or regional plan in a regulatory process. Such plans must fill a municipality's need for broad goal and policy statements on land use matters. To fill that role effectively a plan will usually lack the specificity the Environmental Board requires for fair, accurate regulatory decisions. Though Act 250 requires the Environmental Board to consider municipal plans under Criterion 10, the "good land use planning" sought by the Board is in reality best expressed in the local bylaws implementing the municipal plan because such bylaws contain regulatory specificity. In many cases, local bylaws are inconsistent with town or regional plans. The long-term challenge to Vermont is to ensure consistency between local and regional plans and the bylaws that enact them and to determine how best to wed "good planning" that meets community needs to the needs of the Environmental Board.

Also, there has never been an effort to prioritize all the issues that are reviewed by the land use permitting processes, both in relation to themselves and in relation to other priorities of the state. For example, do we need state review in addition to local review of a business' connection to a municipal sewage system? Should the presence of primary agricultural soils prevent the development of affordable housing even if the site has not been farmed for over 30 years? The Council takes no position on these individual issues. They are included to point out that the layers of permitting and regulation effecting development have been added on without regard to prioritization of the concerns underlying the regulation when compared to other priorities of the state. Perhaps it is time that we prioritize the major concerns and concentrate on them.

The Council wishes to be clear that the issue at hand is not the criteria and purpose of Act 250, the EBoard, nor the law itself. The Council heard no testimony criticizing the EBoard or that recommended eliminating Act 250 or the criteria it's process reviews. Even the data from the O'Neal "Branding Study" showed support for Act 250 while naming the combined permit processes as the most pressing issue for

economic success. The issue is the entire land use permitting and appeals process when taken as a whole, especially when viewed from the perspective of someone who has to go through it from local permits to final Act 250 approval and has invested substantial time and resources in those processes. The permitting practitioners aptly defend their individual processes and explain the improvements they have made or are attempting to make. But the changes have been incremental and they tend to focus on their limited portion of the entire process.

The 2002 legislative session had some notable successes in permitting reform, specifically, regarding storm water permitting (H.644) and on-site septic systems (S.27), which also addresses the ten-acre loophole. The legislature also enacted the recommendation of the Act 40 Study Group regarding appeals of the Water Resources Board going directly to the Vermont Supreme Court. There was also legislation to help with the Environmental Court caseload and allowing for an independent engineer for permit analysis if processing times are not met.

The Council supports these incremental changes and recognizes that change to the land use permitting system will probably have to be incremental. However, the Council believes that while implementation may have to be incremental, a review of the system should be comprehensive.

The Council has heard testimony and received information on all levels of the land use permitting system and finds that overall it requires a comprehensive review by an objective party to identify the underlying issues and problems, to separate perception from reality, and to suggest meaningful policy and process changes. Therefore, the Council recommends that the governor commission and the legislature approve and fund a comprehensive, independent review of local and state land use regulation and permitting systems and processes by a nationally recognized organization. The organization should be from outside Vermont and have experience in land use regulation and permitting and in systems review and reform. The

review should utilize existing review documents and testimony and require input from individuals who have been through the development review processes, both successfully and unsuccessfully, and from those who operate the regulatory processes. The review should have a mandate to present findings that separate perceived problems from actual underlying issues, identifies the most persistent permitting bottlenecks, recommends options to wed good planning that meets a communities needs to the needs of state regulators and the requirements of Act 250, and recommends solutions to prioritize, consolidate and streamline the permit process, making it more predictable, timely and less duplicative, and recommend statutory and rule consolidation and elimination.

Interim Steps

- ***Capitalize on the success of previous brokering processes;***
- ***Establish an Executive Office of Environmental Assistance***

In the meantime, the Council recommends that the state capitalize on the success of the storm water negotiations conducted in the spring of 2002. Interested parties should identify specific issues associated with permitting in Vermont that could benefit from the same type of negotiating process used to come to consensus on the storm water issue and attempt reaching consensus during the next legislative session.

The Council also recommends that the governor establish an Executive Office of Environmental Assistance to advise, monitor, and coordinate multi-agency participation in the permitting system. This office would provide overarching coordination and advocacy, while direct permitting assistance would be provided by existing programs, for which the Council recommends increased resources below.

Municipal Land Use Review

- ***The Chapter 117 Study Group and ultimately, the legislature should consider a program that addresses local planning shortfalls and provides incentives for changes in local zoning***

regulations and other regulations that add unnecessary cost and time to appropriate development with the goal being comprehensive and substantive land use planning to eliminate or minimize the need for impact analysis in the state and Act 250 processes.

Local boards have varying levels of sophistication, involvement, training, and comprehension. But local plans and zoning decisions are the basis for Act 250 deliberations. The state needs to invest in the best planning possible at the local level. Traditionally, the state has funded regional planning commissions through an annual allocation to conduct training and “as needed” technical assistance for municipal boards.

The Council appreciates the efforts of the Chapter 117 study to improve the effectiveness and efficiency of municipal land use regulation, which is continuing this year. The Council urges the study group and ultimately, the legislature to consider a program that addresses local planning shortfalls and provides incentives for changes in local zoning regulations and other regulations that add unnecessary cost and time to appropriate development. The overall goal should be comprehensive and substantive land use planning to eliminate or minimize the need for impact analysis in the state and Act 250 processes. For example, a site zoned and permitted for industrial use should be predictably usable for industrial purposes if the planning, zoning, and permitting are accomplished. The designation should have meaning and not be subject to questions and delays in state and Act 250 permitting when a business attempts to utilize the site. Such a program should include:

- Enhanced state funding for education and training for local municipal planning and zoning commissions and development review boards;
- The development of a coherent, consistent curriculum for local regulators by the state, in consultation with regional planning commissions, the Vermont League of Cities and Towns, and others;

- Technical Assistance for local development of comprehensive strategic plans for the municipality;
- Facilitation and encouragement of municipalities to:
 - Create Development Review Boards;
 - Participate in training;
 - Complete comprehensive local plans that integrate planning for infrastructure, public services, commerce, and housing;
 - Streamline local permitting process;
 - Enact zoning that reflects local and regional plan goals.

State Agency Permitting

- ***Review ANR and other state permitting for redundancy, timeliness, and areas that could be handled by professional certification***
- ***Add more full-time permit assistance specialists.***

The Council appreciates the permitting process review being conducted by the Department of Environmental Conservation and recommends that any review of the state permitting systems have the following goals:

- Reduce redundant permits and consolidate necessary permit reviews;
- Determine appropriate and realistic deadlines for permit actions, especially for accepting an application as complete and a timeline for final action on a permit;
- Establish benchmarks to measure agency compliance with permit deadlines and timelines and if not in compliance, determine reasons and make changes;
- Establish permit conformance requirements specific enough to allow approval for items prepared by certified engineers, architects, and other professionals;
- Increase the number of permit assistance specialists, making that their full-time role, and market the program better.

Permitting Assistance

- ***Add or reallocate resources solely for permitting assistance purposes at DEC and EBoard.***

The Council was encouraged by testimony regarding additional emphasis by the DEC and the EBoard on permitting assistance, especially for small businesses. However, those resources for DEC are limited. They have only 4 permitting assistance specialists and the project management system is limited to a few projects each year. Act 40 created a facilitator position for three years at the EBoard. But the Board has not been able to add a facilitator position because of a lack of resources. The Council recommends that the legislature consider additional resources or a shifting of resources for these agencies solely for permitting assistance purposes.

Act 250/Environmental Board

- ***Enact changes to the Act 250 process.***

The Council recommends that the governor and legislature consider the following changes regarding Act 250 and the Environmental Board:

- To avoid redundancy in the process, grant more weight to state and local permits by establishing a rebuttable presumption for as many permits as possible;
- Simplify the process for master permits;
- Establish meaningful incentives to development in downtowns and established growth centers that have been identified by municipalities and regional organizations, especially for affordable housing, by establishing a process that “certifies” or “designates” downtowns and growth centers and exempts them from Act 250 or provides for off-site mitigation for certain Act 250 criteria;
- The Environmental Board should be required to track the substantive effects of decisions. While a 98% approval rate is publicized, the reality is that these approvals came with conditions that had substantial cost or caused the project to be cancelled. The Council recommends that the economic cost of

denied applications and the cost related to conditions for approved applications be tracked. The cost of the conditions can be self-reported by the applicants.

Appeals

- ***Enact changes to streamline each permitting appeals process.***

The Council recommends the following regarding the various permitting appeals processes:

- Where necessary, streamline the appeals process to eliminate delays;
- Allow hearings “on the record” on a permanent basis and, if no parties take advantage of the pilot that is in place to allow certain hearings on the record, determine why and take appropriate action;
- Eliminate “materially-assisted” party status from appeals;
- Every effort should be made, including the addition of personnel, to ensure that appeals are heard in a timely manner.

Private Sector Role

- ***Adopt positive principles for development***

The Council urges the private sector to endeavor to play a positive role in the recommendations made above by becoming involved through collaboration and constructive criticism. The Council recommends that private developers adopt the principles for resort development presented at the October 2001 forum in Rutland sponsored by the Rutland Economic Development Corporation. The principles were being applied to resort development, but would be effective for any development:

- Understand the local and regional communities – learn their real hopes, fears, and concerns;
- Work with these communities, groups and individuals- hold meetings, ask for input, foster communication;

- Be flexible, open, accessible and honest – compromise and negotiate, don’t dictate and antagonize;
- Plan well ahead and expect delays;
- Protect the environment;
- Help people understand your vision and keep people informed;
- Hire the best people;
- Don’t forget the details.

Certified Professionals

- ***Use certified professionals in the permitting processes whenever practicable from a time, cost, and environmental and public health perspective.***

The Council recommends the use of certified professionals in the permitting processes whenever practicable from a time, cost, and environmental and public health perspective. This will require the utilization of certification system enforcements that already exist, but the Council heard many times that businesses would rather have a timely, predictable permit process with effective enforcement rather than a lengthy permit process and no enforcement. Utilization of licensed professionals can help reduce the state’s workload and speed up review.

Underutilized and Abandoned Sites and Buildings

- ***Complete an inventory of underutilized and abandoned buildings and sites;***
- ***Appropriate funds to the Brownfields Revitalization Fund and utilize \$75,000 to fund a study and development of an implementation plan to address the obstacles to the redevelopment of brownfield sites in Vermont.***

There are various reasons why older buildings are vacant or being underutilized, including poor location, drainage problems, substandard utility hookups, and poor design or construction. Remedies for these problems can often be creatively addressed. However, when a site is contaminated, a host of legal issues arise.

The Council recommends that a complete inventory of underutilized and abandoned buildings and sites be compiled, spearheaded by the regional development corporations and planning commissions with the assistance of the Vermont Center for Geographic Information.

The Council recommends that the legislature appropriate state funds to the Brownfields Revitalization Fund administered by the Agency of Commerce and Community Development to support and promote brownfield re-development in Vermont. The Council anticipates that the fund will also receive federal funding under the Small Business Liability Relief and Brownfields Revitalization Act of 2002. The Council recommends that of the state funds provided by the legislature, \$75,000 be utilized by the Agency of Commerce and Community Development and the Agency of Natural Resources to fund a study and development of an implementation plan to address the obstacles to the redevelopment of brownfield sites in Vermont, in conjunction with the Vermont Environmental Assistance Partnership. The study should consist of a status statement, goals, strategies, benchmarks, and priorities and can act as a blueprint for action to utilize the brownfields redevelopment funding.

1996 RECOMMENDATIONS AND UPDATES

1996 Recommendation #1: Review of Statutes and Rules

VEPC recommended ongoing reviews of regulatory statutes and administrative rules.

Update:

Environmental Board

Effective in January, 2001, the Environmental Board adopted a rule revision package that included revisions effecting telecommunication facilities; power and communication lines; the redefinition of “involved land” for private “commercial and industrial projects” and for projects undertaken for “state, county or municipal purposes”; administrative amendments; multi-district jurisdiction; authority for district commissions to dismiss a case and to stay district commission

decisions similar to the existing Board authority; and revisions regarding master plan review.

In 2001, Act 40 (H.475) was passed making several changes to the Environmental Board's operations, including: repeal of the so-called Road Rule; creation of a pilot project for review "on the record" at District Commissions; an amendment to Criterion 10 regarding ambiguous town or regional plans; giving substantial deference to ANR permits and approvals; creation of a facilitator position for three years; creation of a three-year mediation project; and the establishment of a broad committee to undertake a comprehensive study of the land use permitting process, including appeal rights, as well as make legislative proposals.

Department of Environmental Conservation (DEC)

DEC has ongoing efforts to rewrite DEC rules. DEC is currently using a new rule making procedure that focuses on early public involvement in the rule making process, making rules easier to read, incorporating pollution prevention into rules, and resolving internal conflicts between rules early in the process. The department's rule-making process was recently updated to incorporate the new Secretary of State's rules on rulemaking. This process encourages businesses to help in the development of rule changes at an earlier stage.

In fiscal year 2003 DEC will be working on the Air Pollution Control Regulations, Solid Waste Management Regulations and Underground Storage Tank Regulations.

Department of Housing and Community Affairs

In 2001, the Department of Housing and Community Affairs completed rule-making for its Historic Preservation Division, to establish formal procedures that the Division will follow in Act 250 proceedings, especially to evaluate project impact on archeological resources. Carried out in consultation with the Environmental Board, the rules will make addressing Criterion 8 requirements somewhat

more predictable. The Department will complete unfinished portions of the rules within the 2003 fiscal year.

In 2001, DHCA led a study committee directed by the legislature to review the statutes enabling local land use regulation and to make recommendations for revisions, especially those that would facilitate housing development. The study committee produced a list of possible amendments, but did not introduce legislation during the session. During the summer of 2002, however, DHCA continued the work of the committee to round out its proposed amendments and to build political support that for legislation that will be introduced in January 2003.

The focus of the recommendations will be on clarifying and making more flexible the ways in which municipalities may regulate land use through zoning, subdivision regulations, etc. There will also be recommendations for simplification of the process for appealing local zoning decisions and for limiting rights to appeal to those clearly and directly impacted by the development proposal.

Act 40 Study Group

Act 40 of the 2001 legislative session included the requirement for a Study Committee on Land Use Permitting Systems. The Study Committee submitted its findings and recommendations to the legislature in February 2002. The Committee made the following recommendations:

- The Department of Environmental Conservation will undertake a comprehensive study to recommend alternative methods to DEC's current regulatory processes to more efficiently conduct permitting activities. It will evaluate permit consolidation and changes to the public participation processes;
- The DEC study will not address whether and how to make the substantive environmental standards in ANR's permitting statutes and regulations and the environmental criteria of Act 250 more consistent. They will be a focused review of ANR's water-related

permits for the purpose of consolidating and integrating these permits and their substantive criteria;

- The Committee stated a belief that there should be more finality concerning appeals related to a partial Act 250 review to avoid repeated appeals at another phase, which is decreasing the use of the partial review process. However, no specific recommendation was made;
- The study encouraged towns to routinely update ordinances to be in accordance with their town plans;
- The committee endorsed making the appeals process under various ANR permit statutes more consistent through the use of standard appeals provisions. It endorsed eliminating appeals to superior court, such that appeals of the Water Resources Board would go directly to the Vermont Supreme Court, eliminating appeals to superior court.
- The Committee considered many ANR permits that could serve as rebuttable presumptions under Act 250 criteria but chose not to endorse any further changes to rebuttable presumptions;
- The Committee made no recommendation regarding changes to appeal rights from Environmental Board decisions.

In addition to the recommendations specifically related to the mandated areas to be evaluated, the Study Committee recognized the need to either determine the specific and real problems with the permitting processes or determine that although the systems can be incrementally improved, there is no panacea.

Department of Labor and Industry

Fire Prevention and Building Code: In April 1999, the Department of Labor and Industry updated its Fire Prevention Building Code. Copies of the new code can be obtained by contacting the Department or by downloading the code from the Fire Prevention Home Page on the Department's website.

Child Labor Laws: In 2001, the legislature passed a child labor law that cleared up many conflicts between Vermont's child labor laws

and the federal child labor laws. The law became effective in July 2001.

Elevator and Conveyances: Over the past several years the Department of Labor & Industry received complaints about faulty elevators and elevator safety from members of the public. The complaining persons frequently were surprised and dismayed to learn that Vermont was one of the few states that did not regulate and inspect elevators at the time of installation. State law also did not require regular maintenance or inspection of existing elevators. The Vermont Legislature responded to the publicly expressed safety concerns by passing an elevator safety bill in 2001.

Upper Stories: In 2001 the Legislature directed the Department of Housing and Community Affairs and the Department of Labor and Industry to establish a Task Force on Redevelopment of Upper Stories of Downtown Buildings. The Task Force issued its recommendations to the Legislature on January 15, 2002. In these recommendations, L&I committed to continue its efforts to assist property owners in understanding and applying the technical requirements of the fire prevention and life safety code and the accessibility code, including alternative solutions for existing buildings.

1996 Recommendation # 2 Making the Regulatory System More Understandable and Less Time Consuming

VEPC recommended efforts to make the system accessible to all applicants through steps such as publishing clear, updated explanatory materials and having adequate numbers of trained professional staff with an aim to serve the customer.

Update:

Environmental Board

E-Note Annotated Index: The Board's E-Note Annotated Index includes a 300 plus page index and summary of the key legal

conclusions of Environmental Board decisions going back to 1970, when Act 250 was enacted. It is available on paper, on disk, and on the Board's web site. This has been used by those at the District Commission level helping to ensure greater consistency in decision-making based upon Environmental Board precedent.

Fiscal Impact Analysis Guidance Document: In the past several years, the Board has developed a Fiscal Impact Analysis Guidance Document with the assistance of two economic consultants, which provides greater predictability in the review of economic impacts associated with large projects. It serves to reduce confusion and uncertainty regarding how fiscal impact analysis is used in Act 250 proceedings.

Act 250 Brochure: In November 2000 the Board published an 18-page color brochure, "Act 250 – A Guide to Vermont's Land Use Law". The brochure covers the origin and evolution of Act 250, an overview of the Act 250 process, the 10 Criteria, frequently asked questions, and a list of contacts and additional information. The brochure has been distributed widely and is available from the Board office, the five Act 250 regional offices, and on the Board's web site. The Board is developing a companion video.

Department of Environmental Conservation

In 2001 the *Department of Environmental Conservation* issued 6336 final regulatory actions and met its performance goals for timeliness of review 92.7% of the time. Since 1995 DEC has distributed a customer survey with most permitting actions. 2001 statistics show that 96% of respondents felt that staff were helpful and treated them fairly and courteously; 93% of survey respondents rated their overall permitting experience as above average or better.

DEC's Permit Assistance Program includes four permit assistance specialists serving 5 regional offices and 5 satellite offices. The permit specialists serve as the initial contact for Vermonters and assist

them in identifying all necessary permits or approvals for any given project.

In early 2002 DEC completed a fourth revision of the *Vermont Permit Handbook*, which now includes fact sheets for several different types of small businesses. These fact sheets outline all likely regulatory requirements, from local to federal requirements for each type of business.

A project management system is set up to coordinate project permit review thereby minimizing conflicts and expediting the process. However, due to resources constraints this service is only available for a few projects annually.

Permit system improvement efforts, beginning in 1999 and continuing into 2002, focus on improving consistency and coordination between programs to enhance and simplify DEC permit customers' experience. Specific initiatives include resolving existing cross-program conflicts in a number of programs and cross-program training of permitting staff. In 2002, a major effort will be undertaken in DEC to evaluate all permit programs and recommend alternative methods to more efficiently and effectively carry out DEC's primary goal of environmental and public health protection.

The Small Business Compliance Assistance (SBCAP) and Municipal Compliance Assistance Programs (MCAP) have been in place since 1997 and 2001 respectively. These programs were developed to assist Vermont's small businesses and towns in voluntarily complying with the environmental programs overseen by the DEC regulatory programs. Both programs provide assistance either through a dedicated hotline or on-site compliance reviews.

Vermont Environmental Assistance Partnership

The Vermont Environmental Assistance Partnership (VEAP) is a statewide partnership of DEC, DED, VMEC and SBDC providing

coordinated environmental assistance and training to Vermont businesses. They provide resources for pollution prevention, voluntary compliance, permitting assistance, environmental management systems, and training workshops. VEAP has produced a business-friendly environmental regulation and permitting handbook that is available at www.veap.org.

Department of Labor and Industry

Education

VOSHA - In 1999, the Department of Labor and Industry's Occupational Safety and Health Administration division ("VOSHA"), Green Mountain Coffee Roasters Foundation and the Small Business Development Corporation formed a partnership in safety to provide safety and health information and training to small businesses throughout Vermont. The purpose of the program is to improve workers safety and health in small businesses with the potential result of lower workers compensation premiums and increased profits for employers.

Workers' Compensation - The Department continues to update and improve its website and the Workers' Compensation Division Home Page provides a wealth of information for employers and employees regarding workers' compensation law. In 2001, L&I added a new item that should be of particular interest to Vermont employers, "Fact Sheet for Employers". The fact sheet is intended to answer common employer questions and to provide information about the workers' compensation process, dispute resolution and other facts of interest.

Brochures

In 2001, the Department published a brochure that provides a brief summary of the law regarding Access to Buildings in Vermont. It also provides a comprehensive list of resources available for owners, builders, contractors, and owners of historic buildings who need financial assistance or advice in making their buildings accessible.

L&I also published a brochure in 2001 to assist the regulated community in understanding their obligations under the life safety, electrical, plumbing boiler and building codes. What Landlords Need to Know about Safe Housing and Complying with the Law provides general information on codes and standards that apply to rental units.

Copies of these brochure may be obtained from the Department or may be downloaded from the Fire Prevention Home Page of the Department's website.

Technology

The current worker's compensation data management system at the Department of Labor and Industry has been in operation since 1988 and is overly labor intensive in paper processing. In 2001, L&I requested and received a budget adjustment from the Legislature. The long-term goal of the Department is to develop an integrated workers' compensation data base system that will process workers' compensation information more efficiently by automating as many tasks as possible. This will enable the division to eliminate its backlog, increase productivity and save money by eliminating the duplication of recording, control and reconciliation of related information.

1996 Recommendation # 3: Private Professional Certification of Compliance with Permitting Regulations

VEPC recommended the study of the use of certifications by licensed professionals in place of some state permit inspections to reduce workload and speed up review.

Update:

Department of Environmental Conservation

Since 1997 DEC has been incorporating the use of professional certifications primarily into general permits associated with several permitting programs including storm water and the Underground Storage Tank programs. Use of professional certifications still requires program resources to conduct random checks to assure compliance with the permit. Experience in a few cases has indicated that construction or installation has not occurred according to the rules. This fact highlights that relying upon professional certification also requires licensing installers and contractors, and resources to conduct enforcement activities as needed.

The exclusive use of professional certifications has been evaluated in the subdivision and public building permitting programs. In 1996 DEC began working on legislation that was based on a certification and audit approach for application review in these programs. In the interim a checklist review concept was instituted both to serve as a transition from the individual application review approach and as a test for the proposed certification and audit approach. By tracking application deficiencies during this trial period, it quickly became apparent that unless some minimal level of review occurred, certain design criteria would not consistently meet the requirements. In other words, relying exclusively upon professional certification wouldn't result in consistently compliant designs.

Even though the checklist is still in use, the current application review process includes site inspections and a very detailed review of the plans, including checking mathematical calculations. The proposed approach is to reduce the detailed plan review to only include the major issues such as location, type of system, and identification of potentially threatened water supplies. In addition, site visits would be conducted as much as possible, where these visits are critical to the success of the systems. This would rely on the professional certification in the less critical areas of the design, and review should take far less time than the current process.

Labor and Industry

The Department of Labor and Industry has entered into eleven cooperative agreements with municipalities throughout the state: seven fire, two electrical and two plumbing agreements. These agreements allow local entities to enforce codes and standards on the state's behalf. The Department is hoping to make this option available to more interested parties in the future.

The 2001 elevator and conveyance legislation that requires annual inspection of elevators and conveyances in public buildings will be inspected by private inspectors, not state employees. Elevator inspectors will be required to meet minimum qualifications established by the Elevator Safety Review Board, which is chaired by the Commissioner of L&I.

1996 Recommendation #4 Clarify Vermont's Recreational Use

VEPC recommended passage of a law to clarify ambiguities in Vermont's Recreational Use Statute such that landowners would be held harmless if persons were injured while using their property if there was no compensation given for its use and if hazards were clearly marked.

Update:

In 1997, section 5794 was added to 12 VSA Chapter 203 which addressed limitations on landowner liability. Included within the provision are clarifications that the fact that an owner has made land available without consideration for recreational uses shall not be construed to – amongst other things – extend any assurance that the land is safe for recreational use, or create any duty on an owner to inspect the land to discover any dangerous conditions. Further, for the purposes of protecting landowners who make land available for recreational use to members of the public for no consideration pursuant to this chapter, the presence of one or more of the following on land does not by itself preclude the land from being “open and developed”: posting of the land, fences, or agricultural or forestry related structures.

1996 Recommendation #5 Home Business Definitions

VEPC recommended revision of the law defining “office” so that a business owner with one employee would not have to upgrade the entire home to “public building” standards.

Update:

Acting on the recommendations of the Home Business Task Force, the definition of “public building” was relaxed in the 1996 Legislative session to exclude buildings where less than two unrelated people are employed. Previously, a business owner with just one employee had to, according to the law, upgrade their entire home to “public building” standards. However, the Legislature did not revise the definition of “office” to exclude buildings that were not entered by customers on a “regular” basis.

1996 Recommendation #6 Update Commercial Laws

VEPC recommended completion of the update to Vermont’s commercial laws and the passage of computer crime legislation.

Update:

During the 1999 legislation session, 13 VSA chapter 87 was added to define computer crime, and chapter 47 amended to define telecommunications fraud and the facilitation of telecommunications fraud. In both cases, criminal penalties and civil remedies were outlined.

1996 Recommendation #7 Use of Emerging Technologies for Wastewater Treatment

The Council urged agreement on rules governing design of on-site wastewater disposal facilities, closure of the so-called “10-acre loophole,” and encouraged the legislation to allow municipalities to manage significant portions of the permit review program, thus reducing overlap with state regulators.

Update:

During the 2002 legislative session, S.27 was passed and enacted, eliminating the “ten-acre loophole”, thereby allowing the state to regulate most septic systems. The bill also allows for installation of alternative septic systems, which is expected to open up more land for development. A “build out” is allowed on undeveloped, pre-existing lots with no septic permit through July 1, 2007. Municipalities are offered the opportunity to oversee these regulations, including enforcement. The 2002 rules, adopted August 16, 2002, create a system for approving general use, pilot, and experimental systems. Several innovative systems have been approved and other alternative systems are under review.

1996 Recommendation #8 Underutilized and Abandoned Buildings

VEPC recommended that the availability of the Vermont Petroleum Cleanup Fund be extended to current owners and prospective purchases of “qualifying downtown sites,” as prescribed in the Agency of Commerce’s proposed Downtown Community Development Act of 1997 and expanded in 1998. VEPC also recommend that a complete inventory of abandoned buildings be compiled, spearheaded by the regional development corporations and planning commissions.

Update:**Department of Housing and Community Affairs**

One of the most fundamental aspects of DHCA’s Vermont Downtown Program directly addresses this recommendation. We have long been aware of the under-utilization of downtown buildings, especially upper floors. In most cases this has been due to the lack of owner capital and or interest in keeping the structures habitable. In many cases under use was directly related to violation of modern life-safety or access codes. The 2001 Legislature directed DHCA to lead a study committee to assess the true degree of the problem and to

recommend legislation to address it. The result was legislation, a second “downtown bill” passed in May 2002. The provisions of this legislation, when added to the incentives in the existing downtown program, offer strong incentives through tax credits, grants and Act 250 exemptions that will stimulate much more intensive use of all the square footage in our downtown and village buildings.

Agency of Commerce and Community Development

The 2002 legislature also passed elements of H.701, creating a Brownfields Revitalization Fund and authorizing the Secretary of the Agency of Commerce and Community Development to award grants for the assessment and remediation and recommend others to VEDA where a loan would be more appropriate. The fund can also be used to subsidize the purchase of environmental insurance. The fund is expected to receive federal funds authorized for this purpose by the Small Business Liability Relief and Brownfields Revitalization Act of 2002 sometime before October 2003.

1996 Recommendation #9 Coordinated State and Local Permitting
VEPC recommended that ANR convene regular discussions among local, regional, and state regulatory entities, with the objective of eliminating overlaps and inconsistencies. To address perceived conflicts between Act 200 and Act 250, VEPC recommend that representatives from the E-Board, municipal and regional government, and the Department of Housing and Community Affairs meet to clarify how the various rules and regulations interact and to enhance the working relationships among their organizations.

Update:

Department of Environmental Conservation

DEC has developed a work plan to conduct a comprehensive study of its permitting systems beginning in 2002. The main goal of this study is to evaluate alternative methods to DEC’s current regulatory processes to more efficiently carry out its primary mission of protecting the environment and public health. Regulatory processes

will include application processing, permit consolidation, interfacing with other permitting processes (such as Act 250), and public participation.

A stakeholders committee will be formed, with representation from various groups (e.g., the regulated community, other state agencies, citizen and environmental organizations) to provide input to DEC on planning the study and providing an independent critique of the study’s findings and recommendations. The Act 40 land use study committee endorsed this study by DEC.

Over the past two years the Agency of Natural Resources has been working on a number of initiatives whose goals are to encourage growth centers and not encourage scattered development. One of these initiatives requires developing guidance for and providing inter-departmental permitting coordination for projects that have growth issues associated with them. One goal of these documents is to provide primarily towns with guidance to more effectively navigate the DEC and Act 250 permitting processes, while addressing growth issues.

Department of Housing and Community Affairs

There has been considerable improvement over the past two years in the level of coordination between state and local planning. Approximately one hundred and seventy-five towns now have a confirmed planning process, which means that their regional planning commission has reviewed the town plan and found it consistent with state planning goals and compatible with the plans in neighboring towns and with the regional plan. While a higher percentage of towns in the Northeast Kingdom are not yet confirmed, new leadership at the Northeastern Vermont Development Association (the regional planning commission for Caledonia, Essex and Orleans counties) has invigorated the region’s planning program.

An Executive Order signed in 2001 and new legislation that same year formally structured the Governor’s Development Cabinet with responsibility for assuring “...collaboration and consultation among

state agencies and departments in order to support and encourage Vermont's economic development." (3 VSA 45). Cabinet membership includes the secretaries of administration, natural resources, commerce and community development and transportation, and the commissioner of agriculture. The cabinet is directed to oversee activity of all state agencies affecting land use, described in a series of twelve specific elements. To date this cabinet has generally met on a bi-weekly basis. Its presence has been felt in much more effective coordination of administration policy and positions on a wide range of matters such as on-site sewage disposal, storm water issues, and downtown development.

The Administration has supported increased resources for regional and local planning through adherence to the statutory formula for distribution of Property Transfer Tax revenues for that purpose. As a result, even with the softening of state revenues on FY2001 and 2002, DHCA has been able to hold state grants for these purposes at much more functional levels.

1996 Recommendation #10 Formalize Vermont Seal of Quality Regulations

VEPC recommended that interim standards for the Vermont Seal of Quality be formalized through the public hearing process.

Update:

Department of Agriculture

The Seal of Quality program has been reoriented to emphasize marketing. The "New Products.... New Partners" Vermont Seal of Quality has four categories, including two for "products" and two for "partners." For products, "Commissioner's Choice" is used on

Vermont farm products that are essentially 100% produced and processed in Vermont (milk, cheese, maple syrup, others). "Value Added Product" is used on products in which 85% of the value has been added in Vermont, or Vermont farm products that have been processed outside the state (jams, jellies, salsas, others). For partners, "Agricultural Partner" is used by food and agriculturally based businesses, organizations and associations demonstrating a substantial commitment to the benefit of Vermont agriculture (farms, farm stands, producer associations, others). Farm Heritage Partner" is used by businesses or other organizations that consistently show commitment to the support of Vermont's farm economy (retailers, restaurants, others). The renewed program has succeeded in gaining market share and now has 430 members, a 240% increase since 1999.

This program serves as the centerpiece of a broad marketing campaign focused on bringing more local products to the marketplace as well as acting as an identifier for the out-of-state consumer as to point of origin. It has been estimated that \$100 million per year could re-circulate into the Vermont economy simply by consumers buying local products over those produced elsewhere.

Policy Area Two

A Competitive and Stable State and Local Tax Policy

INTRODUCTION

The State's tax policy is a crucial element in creating a stable business climate. Corporate and individual taxes remain an issue for businesses in Vermont and for those considering Vermont. The Council heard many times that the individual tax rate is a major consideration for entrepreneurs when deciding whether or not to remain in Vermont.

The six main groupings of Vermont taxes (and their present taxing authorities) are:

- Personal income tax (state)
- Sales & use, cigarette, liquor, and beverage taxes (state)
- Corporate income and business taxes (state)
- Rooms & meals taxes (state)
- Fuel taxes (state)
- Property taxes _ real and personal property (state & local)

The first five groups of taxes are assessed uniformly statewide (although several municipalities have been authorized by the Legislature to increase the rooms & meals tax) with the largest single tax being the personal income tax.

Act 60, The Equal Education Opportunity Act, passed by the General Assembly in 1997 dramatically changed how education is funded in Vermont. Act 60 created a statewide school property tax and provided for a system that allows educational resources to be equally available to school districts throughout the state availing themselves of similar spending per pupil. The statewide tax rate of \$1.10/ \$100 of equalized

property value is added to the Education Fund which also receives lottery receipts and a significant annual appropriation from the General Fund.

Act 60 ties the amount of tax of the resident property taxpayer to his/her income. The statewide property tax for most Vermonters is limited on his/her homestead property (a house and no more than 2 acres) to no more than 2% of their income. Additionally there is a local school tax if the local school district votes to spend more than the state-provided basic support grant per pupil. Since most school districts do in fact spend more, the total school tax will be somewhat higher. Local school taxes are somewhat limited for individuals depending on income, but will climb as a community decides to spend more.

School taxes are no longer established based on the community's wealth, but rather on the amount of money spent per student. School budgets are determined at the local level, as always, but the funding comes from several sources and the school tax rate paid in the community will be similar to that in any other community that spends a like amount raised by tax dollars.

Local school funding is provided principally:

1. Through the block grant per student to the school district. The block grant grows by inflation each year and in FY 2003 is expected to be approximately \$5,566. This number is then adjusted based on the specific make-up of the student body. There are weighting factors that provide additional block grant amounts for the higher costs associated with high school students, kids from poverty backgrounds, students for whom English is a second language, and for small schools who do not have the advantages of economy of scale.
2. Through additional categorical aid paid by the state to school districts. Categorical aid is tied to specific costs and aid levels are statutorily defined. Special Education is funded 60% by the state.

Transportation costs are subsidized at the 50% level. The state also participates in school construction funding and debt service costs.

3. Through the local share tax. If a community cannot pay its education costs with the block grant, categorical aid, and other local revenues not raised by taxes, then it will have to raise a local school tax. Depending on a community's relative property wealth, this local school share tax may either cost more in the form of a higher contribution to the Education Fund, or result in a further contribution to the local school district from the state Education Fund.

Along with the statewide property tax, the lottery, and the General Fund appropriation, a specific portion of some of Vermont's various tax components is dedicated to the Education Fund. One point of the Purchase and Use tax on motor vehicles, 4 cents of the gasoline tax, 2 points of the Meals and Rooms Tax, a Telecommunications Tax, and portions of the Bank Franchise Fee and the Corporate Tax (19%) are deposited in the Education Fund.

Vermont, with a history of a "piggyback" tax system based on the Federal Income Tax liability, has experienced revenue fluctuations over the years as a result of federal tax changes. The state has recently changed to a "taxable income" line and to install its own rates to that line. In an attempt to simplify the tax returns and tax policy the state is currently working to eliminate effects of the Alternative Minimum Tax, Capital Gains, and other adjustments requiring a re-computing of federal returns for Vermont filing. Since 1997 the state has reduced the income tax rate and eliminated the sales tax on most clothing.

2002 VEPC RECOMMENDATIONS

Tax Burden Impact Study

- ***Fund a comprehensive, independent review of Vermont's tax system, its tax burden relative to competitive and neighboring states and the impact of the local and state tax burden on economic growth.***

The Council previously recommended that a comprehensive tax study be undertaken to determine the impact of Vermont's tax burden on economic development and the state's position relative to competitive states. The Joint Fiscal Office did a tax study in 1996. As the Council stated in its 1996 report, that study was not intended to be comprehensive, including public comment and policy recommendations, rather it was a fact-finding effort that examined a representative sample of individual and corporate tax liabilities and compared them to 12 other states.

According to a 2002 study by the Tax Foundation that examined state and local tax burdens, Vermont has the 10th highest tax burden when measured as a percentage of income. Vermont's state and local tax burden is 11% of income, compared to 8.6% for New Hampshire, 9.5% for Massachusetts and 12.3% for New York.

The Council recommends that the legislature approve resources for a comprehensive, independent review of Vermont's tax system, its tax burden relative to competitive and neighboring states and the impact of the local and state tax burden on economic growth. The study should also analyze the impact that various changes in tax policy – including increases, decreases, exemptions, eliminations, and incentives – could have on Vermont's competitiveness, the development of a stronger, diverse and sustainable economy and the state's ability to maintain necessary services and our quality of life. The study should recommend steps toward comprehensive tax reform. As outlined in Policy Area 5: Telecommunications, of this report, there are layers of taxation imposed on telecommunications providers and end users that may be restricting the deployment of further broadband infrastructure in Vermont. While the study recommended here should examine the tax burden implications on all aspects of economic development, the impact on telecommunications infrastructure development should certainly be included and could possibly serve as a case study. The legislature should also consider the development of a cost-benefit model, to be utilized whenever a change in tax policy is considered, that measures the policy's impact

on business growth and economic development and the impact of the change on tax revenues.

Retention Incentives

- ***Examine various retention incentives.***

The state has developed a comprehensive set of tax incentives as a tool in expansion and recruitment efforts. The design of the program, however, limits its use as a retention tool. In addition to the changes to the Economic Advancement Tax Incentive program outlined below, which are meant to strengthen the program's effectiveness relative to workforce development and strategic industries in Vermont, the Council also recommends that the legislature examine various retention incentives designed to keep the state's current employers and emerging industries in Vermont even if they are not proposing any major expansions. The Council will work with the Department of Economic Development, the regional development corporations and business organizations to examine the retention incentives utilized by competitor states and present a proposal to the legislature.

Economic Advancement Tax Incentive Program

- ***Modify the EATI investment and workforce development tax credits.***

In other sections of this report, the Council recommends several initiatives to enhance the state's workforce development efforts and focus economic development programs on our strategic industries. The existing tax incentive program is one tool utilized in those efforts and the program should be examined to strengthen its effectiveness in those areas. The Council recommends the following changes to the Economic Advancement Tax Incentive Program:

- Modify the EATI investment incentives to double the level of eligible credits for applicants in the 25 base industries of strategic importance to the state, subject to the fiscal cost benefit analysis.

This initiative would target additional financial incentives for specific key base industry sectors of the Vermont economy that yield the highest rate of overall fiscal return for the state's investment. The additional incentives would support the undertaking of expansions that create high quality and sustainable job opportunities in a way that leverages state investments.

- Redesign the EATI workforce development tax credit to provide meaningful leveraging support for private sector investments in job training and workforce development. The current structure for the workforce investment credit is so limiting that it is seldom applied for and if authorized, rarely utilized. This initiative will leverage private sector investments in job training to encourage greater investments in skills development and life-long learning for the Vermont workforce. The credit would not only pertain to new entrants to the labor pool, but also help to retool the incumbent workforce.

Worker's Compensation System

- ***Determine and address the issues underlying business concerns with the worker's compensation system.***

The Worker's Compensation system and premiums remain a major issue for Vermont's businesses. The Council recommends a continuation and strengthening of the collaborative effort between the Departments of Labor and Industry and Economic Development to determine and address the issues underlying business concerns with the worker's compensation system.

1996 VEPC RECOMMENDATIONS AND UPDATES

1996 Recommendation #11: Comprehensive Tax Study

VEPC recommended a comprehensive tax study and property tax reform.

Update:

A limited tax study was accomplished and debate on the property tax issue resulted in Act 60 and subsequent property tax reforms.

1996 Recommendation #12: Use Value Appraisal

VEPC recommended that land under good management practices be taxed at its use value, not its development value. It further recommended continuation of the Present Use Value appraisal system.

Update:

The system was made permanent tax policy under Act 60.

Recommendation #13: Stabilization Reserve

The Council concurred with the creation of a Stabilization Reserve or ‘rainy day fund’ and recommended the amount in the reserve be built up by one percent per year so that by June 30, 2002 a five percent reserve is attained.

Update:

The State attained a 5% reserve by June 30, 2002. Having the reserve meant that the state maintained favorable bond ratings and therefore reduced its annual debt service costs on long-term borrowing. As the state faces a downturn in the economy, the reserves are in place to help cover budget shortfalls.

Recommendation #14: Reduce Machinery & Equipment Tax

VEPC recommended that the state adopt a policy of elimination of property tax on machinery and equipment with implementation left to the discretion of local communities.

Update:

Changes in tax policy that came into effect with the passage of Act 60 are consistent with VEPC’s 1996 recommendation. Section 5401(10) (d) of 32 VSA chapter 135 relating to education fund revenue sources excludes machinery, equipment, and inventory from the definition of “nonresidential property.” Therefore, machinery and equipment are not included within the calculation of the statewide education property tax on nonresidential property, as referenced in section 5402(a) of the same chapter.

However, municipalities retain the authority to levy local taxes on machinery and equipment at their discretion.

Recommendation #15: Industry-Specific Tax Incentives

VEPC recommended the creation of specific tax incentives designed to create quality jobs, close the wage gap and maintain Vermont’s quality of life.

Update:

Vermont Economic Progress Council

Act 71, signed into law in 1998 created a package of income, property and sales tax incentives known as the Economic Advancement Tax Incentives. The Vermont Economic Progress Council was given the responsibility to implement and administer the incentives. In 2000, Act 159 included several improvements to the program and this past legislative session a new set of high-tech tax credits was added. Since its inception, the program has generated 1738 jobs with an average compensation level of \$43,290 and investments totaling \$558 million in payroll, research and development, new and renovated facilities and new machinery and equipment.

Recommendation #16: Workers' Compensation Premiums

VEPC recommended that the Departments of Labor and Industry and Banking, Insurance and Securities continue efforts to lower the costs of worker's compensation premiums.

Update:

Department of Labor and Industry

Workers' compensation premiums are not part of the tax system, however, they do affect the business climate. Compared to neighboring states, Vermont workers' compensation claims involve fewer attorneys and there is less litigation; this results in a relatively efficient process. Workers' compensation rates are set by the Banking, Insurance, Securities and Health Care Administration ("BISHCA"). Labor and Industry strives to make the workers' compensation system run as efficiently as possible through electronic filing of workers' compensation claims and extensive educational outreach to employees, employers and insurance adjusters.

Recommendation #17: GAAP Reporting

VEPC recommended bringing the State's financial reporting into compliance with Generally Accepted Accounting Principles (GAAP).

Update:

Department of Finance and Management

In July 1996, for fiscal year 1997, The Department of Finance and Management began reporting finances in compliance with GAAP. Fiscal Year 2002 will be reported in compliance with GASB Statement 34. July 1, 2001 the Department began to use the state's new financial management system. The system, known as VISION, is an integrated PeopleSoft based system that provides for fixed asset management, payables, receivables, contract management and other functionality that not only provides for better controls, but significantly better and more current reporting.

Policy Area Three

Coordinated and Cost-Effective Economic Assistance and Community Development Programs

INTRODUCTION

Vermont continues to deliver economic and community assistance through a decentralized system made up of networks and partners. The departments – Economic Development, Tourism and Marketing, and Housing and Community Affairs – partner with regional and local organizations, federal agencies, financing programs and service providers to deliver programs and services throughout the state. This system allows decisions to be made locally and regionally and acknowledges the unique economic development needs of the various regions. The challenge to the economic development practitioners is to avoid duplication and attain the best level of coordination of services whenever possible.

2002 VEPC RECOMMENDATIONS

Strategic Economic Enhancement Initiative

- ***Appropriate at least \$200,000 annually for the full development and continuous refinement of the strategic industry study initiated by the Department of Economic Development and utilize the results to target limited economic development resources.***
- ***Utilize a cost-benefit model similar to that developed for the Economic Advancement Tax Incentive program to determine how best to design, target, and evaluate economic development initiatives relative to a desired outcome.***

The Council understands the current fiscal limitations on the state. Resources are scarce and competition with other functions of

government is fierce. Also, the Council recognizes that the returns for public and private investment in economic development are often difficult to identify and measure. The investments tend to yield benefits that are intangible and the outcomes are not immediate.

However, when investments in economic development are neglected for an extended period of time, the results also become too apparent. Investment in economic development initiatives lead to a healthy economy which employs residents, supports taxable consumer consumption and accumulation of wealth, which in turn leads to healthy communities. Economic development that encourages business investment and entrepreneurial activity creates and sustains quality, high-paying jobs and produces fresh revenues to the state.

Determining where and how to make investments in economic development becomes as essential as making the investments at all. Therefore, in addition to the specific economic development investment and policy recommendations below, the Council recommends that the Legislature provide adequate resources for the full development and continuous refinement of the strategic industry study initiated by the Department of Economic Development and utilization of the results to target limited economic development resources. The Council recommends at least \$200,000 annually for this purpose.

Further, the state should fund the development and utilization of a cost-benefit model similar to that developed for the Economic Advancement Tax Incentive program to determine how best to design, target, and evaluate economic development initiatives relative to a desired outcome. The outcomes should reflect the results of the strategic industry analysis and factor in methods to address regional economic differences and disparities.

The Council also recommends the following specific, long-term economic development investments and policy initiatives:

Vermont Economic Advancement Trust

- ***Establish and fund a quasi-governmental agency modeled after the Vermont Housing and Conservation Board, with the responsibility to work with the economic development community to locate, acquire, and pre-permit economic development sites in all regions of the state.***

The Council believes that economic development efforts would benefit from the creation of a quasi-governmental entity to be an advocate for quality, sustainable economic development, leveraging private sector investments in economic development infrastructure, and facilitate the development review process on the state and local level. Coordinating with the regional development corporations and planning commissions, the entity would assure adequate and suitable site inventory either through the private sector or the regional development corporations, develop permitting capacity in order to obtain local and state permit approvals, provide permitting assistance to those entities not locating in the pre-approved industrial sites, conduct feasibility studies for existing industrial facilities located around the state and develop grant writing capacity for drawing federal funds, grants and foundation resources. The Council recommends the establishment and funding of a quasi-governmental agency modeled after the Vermont Housing and Conservation Board, with the responsibility to work with the economic development community to locate, acquire, and pre-permit economic development sites in all regions of the state. The agency will require an annual authorization of \$5 million from the Property Transfer Tax.

Regional Small Business Incubators

- ***Charge the newly created agency with the responsibility of developing five regional small business incubators to support technology transfer.***

There is an established need to provide critical early support to fledgling Vermont entrepreneurs. Research indicates business incubators have been successful in providing a supportive

environment for innovation and commercialization at early, critical stages of new business development. The Council recommends that the new agency described above be charged with the responsibility of developing five regional small business incubators to support technology transfer as part of its site development work. Any incubator development should be in collaboration with efforts already underway to establish incubators.

Infrastructure Development Revolving Loan Fund

- ***Establish and capitalize at \$4 million, a revolving loan fund for infrastructure development to provide below market interest rate loans to appropriately leverage the expansion of transportation, water, waste water, utilities and telecommunications infrastructure.***

The state needs to invest in Vermont's future prosperity by developing an additional source of funding that will leverage public and private sector investment in critical new infrastructure and the replacement of aging infrastructure. This will help to remove an obstacle to job growth and job retention and enable Vermont to increase the inventory of adequately served economic development sites around the state. The Council recommends the establishment and capitalization, at \$4 million, a revolving loan fund for infrastructure development to provide below market interest rate loans to appropriately leverage the expansion of transportation, water, waste water, utilities and telecommunications infrastructure.

Services for Entrepreneurial Development

- ***Create and market a network of services targeted specifically toward entrepreneurial development.***

The Council recommends the creation, funding and marketing of a network of services targeted specifically toward entrepreneurial development with a menu of services allowing for different levels of involvement from which the entrepreneur can select. The program would include the creation of a mentoring/advisory network and

processes for accessing financial resources through venture capital and angel investor groups.

Regional Development Corporation Funding

- ***Increase the annual state appropriation for the Regional Development Corporations to \$1,250,000 beginning in FY 2004.***

In Vermont, economic development services are delivered through a system of regional development corporations. These private non-profit entities are on the front line working with businesses and communities in an effort to create quality employment opportunities for Vermonters. The Council recommends an increase to the annual state appropriation for the Regional Development Corporations to \$1,250,000 beginning in FY 2004. This initiative will allow regional economic developers to capture critical data that can be used by policy makers when addressing business and quality of life issues in the state. The additional funds would be used to support fulltime positions focused on business development, meeting and working with companies on a daily basis to address the issues they face in Vermont.

Government Marketing Assistance Center

- ***Increase the annual state appropriation for the Government Marketing Assistance Center (GMAC) to \$600,000 in FY 2005.***

Through the Government Marketing Assistance Center (GMAC), Vermont has been very successful in helping small businesses access contracts that would have otherwise been out of their reach. The program focuses on state and federal contracts, but could be expanded to include municipalities and large institutions around the state such as UVM. Working with the Vermont Manufacturing Extension Center, there is also a need to focus on including more Vermont businesses in the defense contract supplier chains. The Council recommends an increase in the annual state appropriation for the Government Marketing Assistance Center to \$600,000 in FY 2005. The funds will allow the state to draw down additional federal

resources and expand the opportunities for small business to access government contracts both at the state and federal level. The Council also recommends that a fee structure be established and approved for certain GMAC services.

Vermont Manufacturing Extension Center

- ***Increase the annual appropriation for the Vermont Manufacturing Extension Center (VMEC) to \$595,000 beginning in FY 2004 and adjust this appropriation annually by not less than the rate of inflation through 2013.***

The Vermont Manufacturing Extension Center (VMEC) program has over the years provided invaluable technical support and assistance to Vermont businesses all over the state. The Council recommends an increase to the annual appropriation for VMEC to \$595,000 beginning in FY 2004 and adjustments to this appropriation annually by not less than the rate of inflation through 2013. This proposal would allow VMEC to significantly expand the availability of its services to small manufacturers who are unable to pay the fee for service costs associated with the program. It will also help facilitate the sustainable growth of key manufacturing businesses in Vermont.

Small Business Development Center

- ***Increase the annual state appropriation for the Vermont Small Business Development Center (SBDC) to \$600,000 beginning in FY 2004.***

Vermont's Small Business Development Center has earned high praise as one of the premier SBDCs in the country. The Council recommends an increase in the annual state appropriation for the Vermont Small Business Development Center (SBDC) to \$600,000 beginning in FY 2004 and an adjustment to this appropriation annually by not less than the rate of inflation through FY 2013. Additional funding is to increase the number of staff and the number of satellite in-take offices, especially in underserved areas. This initiative would enable the Vermont SBDC to expand its already

excellent service network of business support services in all regions of the State. It would also allow the SBDC to facilitate the development of micro-business enterprises in Vermont and provide needed business and planning assistance to individuals who have recently lost their jobs, but might be considering establishing their own business.

Vermont World Trade Office

- ***Increase the annual appropriation of the Vermont World Trade Office (VWTO) to \$500,000 by FY 2004 and adjust this appropriation annually by not less than the rate of inflation through FY 2013.***

Over the years, one of the keys to economic success for goods-producing businesses in Vermont is increasing their sales to customers in other countries. The Council recommends an increase in the annual appropriation for the Vermont World Trade Office (VWTO) to \$500,000 by FY 2004 and adjustments to this appropriation annually by not less than the rate of inflation through FY 2013. This initiative would substantially increase export assistance to Vermont businesses. Programs would include a travel grant to help facilitate business to business contact between Vermont exporters and their international business contacts; an educational coordinator to increase the VWTO's efforts to reach out to the exporting community; and a greater focus on Canada through trade missions and political exchanges in order to further develop Vermont's number one export market.

Vermont Training Program

- ***Increase the annual state appropriation for the Vermont Training Program (VTP) to \$1,000,000 beginning in FY 2005 and adjust this appropriation annually by not less than the rate of inflation through FY 2013.***

The Vermont Training Program has been very successful at delivering job training directly to employers. The Council recommends an increase in the annual state appropriation for the Vermont Training

Program to \$1,000,000 beginning in FY 2005 and adjustments to this appropriation annually by not less than the rate of inflation through FY 2013. The Council further recommends that 50% be earmarked for job retention and retraining and 50% for support of proactive development and redevelopment of Vermont strategic industries. The purpose of this initiative is to target the specific job training needs of key employers in base industries of strategic importance. It is intended to assist the ongoing needs of all working Vermonters and to improve wages within the manufacturing community. The Council also recommends that the legislature amend the statute authorizing the VTP to extend its impact beyond manufacturing. The program should be updated to allow it to respond to the needs of new and emerging industries that may not fit the current definition of the program by expanding the program eligibility criteria to include the high tech definitions now covered by the Economic Advancement Tax Incentive program, and the financial services industry.

Tax Incentive and Exemption Modifications

- ***Modify the EATI investment credit and the Sales and Use Exemption on Fuels.***

Available tax incentives should be developed to target additional financial incentives for specific key base industry sectors of the Vermont economy that yield the highest rate of overall fiscal return for the state's investment. The Council recommends modification of the Economic Advancement Tax Incentive investment incentives to double the level of eligible credits for applicants in the 25 base industries of strategic importance to the state, subject to the fiscal cost benefit analysis. The additional incentives would support the undertaking of expansions that create high quality and sustainable job opportunities in a way that leverages state investments.

The Council also recommends modification of the sales and use tax exemption on fuels (electricity and fossil fuels) used in the manufacturing process to include all aspects and functions of the business, not just those directly attached to the production of goods.

The exemption would only be extended to the 25 base industries of strategic importance to the state.

Recruitment

- ***Implement a sustainable source of funding dedicated to recruitment efforts by the Department of Economic Development and direct all state agencies, departments and funded partners to engage in cross marketing.***

Comprehensive economic development efforts include tools for retention, expansion, incubation and entrepreneurial activity, and recruitment. The Council believes that retention, expansion, incubation and entrepreneurial development should be the priorities for the state's limited resources and makes several recommendations to enhance these tools in this report. However, some level of out-of-state recruitment is required. These efforts should be consistent and therefore not subject to temporary funding. To increase the impact of recruitment efforts beyond direct contact by the Department of Economic Development, recruitment efforts should pervade any Vermont government presence that is in contact with out-of-state prospects by becoming a direct or indirect "cross-marketing" function of all state departments. For example, any state presence at expositions or functions outside the state, regardless of their purpose, should include information on Vermont as a place to do business. Also, at some point during their visit to Vermont, any out-of-state visitors that are prospective business owners should see a marketing piece on Vermont as a place to do business. The Council recommends a sustainable source of funding dedicated to recruitment efforts by the Department of Economic Development. The Council also recommends a directive by the governor to all state agencies, departments and funded partners to engage in cross marketing so that business recruitment is included in their marketing efforts either directly or indirectly.

Retention Incentives

- ***Examine and implement retention incentives designed to keep the state's current employers and emerging industries in Vermont.***

The state has developed a comprehensive set of tax incentives as a tool in expansion and recruitment efforts. The design of the program, however, limits its use as a retention tool. In addition to changes to the Economic Advancement Tax Incentive program outlined in this report, which are meant to strengthen the program's effectiveness relative to workforce development and strategic industries in Vermont, the Council also recommends that the legislature examine various retention incentives designed to keep the state's current employers and emerging industries in Vermont even if they are not proposing major expansion. The Council will work with the Department of Economic Development, the regional development corporations and business organizations to examine the retention incentives utilized by competitor states and present a proposal to the legislature.

Vermont Economic Development Authority

- ***Fund the development and operation of a financing program tailored to the needs of knowledge-based businesses;***
- ***Provide a one-time \$1.5 million appropriation in FY2004 to capitalize a Mezzanine or Subordinated Debt Financing Program for mid-stage financing;***
- ***In FY 2005, appropriate \$1 million strengthen VEDA's Small Business Loan Program to provide low cost capital to Vermont entrepreneurs.***

The Council recommends that should the Vermont Economic Development Authority (VEDA) find itself without sufficient funds for lending, or in the alternative that its loans must be priced so as to make the Authority's loans less attractive as an economic development tool, the State must be prepared to make available sufficient funds for additional subsidization of VEDA's interest rates.

It is also imperative that Vermont position itself to be able to provide financing assistance to knowledge-based businesses that often deal with intellectual property. The financing needs of these businesses may fall outside the traditional “bricks and mortar” model. Toward that end, the State should provide sufficient funding to VEDA for the development and operation of a financing program tailored to the needs of these companies.

A gap has been identified between very early stage financing and later stage debt financing. VEDA is currently exploring the feasibility of creating a Mezzanine or Subordinated Debt Financing Program to fill this gap. The Council recommends a one-time appropriation to VEDA of \$1.5 million in FY2004 to capitalize this fund.

Further, in FY 2005, \$1million should be appropriated to VEDA to strengthen its Small Business Loan Program to provide low cost capital to Vermont entrepreneurs. The provision of below market capital has been proven to be an important step in facilitating the efforts of entrepreneurs to establish and strengthen commercially viable enterprises.

Downtown Program

- ***Direct development to downtowns through the permanent authorization of the Downtown Reinvestment Fund and establishment of downtown investment incentives.***

The Council recommends the permanent authorization of an annual appropriation for the Downtown Reinvestment Fund and urges an appropriation goal of at least \$2 million for the fund.

The Council also recommends the establishment of more effective incentives to develop in downtowns and true growth centers. A process should be developed that results in the designation of downtowns and growth centers that meet certain criteria so that they could then be exempting from the Act 250 process or allowed to provide for off-site mitigation for certain Act 250 criteria.

Tourism and Marketing

- ***Tie funding for tourism marketing to a consistent, sustainable funding mechanism that provides adequate resources.***

The Council feels that promotion of Vermont as a travel destination is an essential investment, one that should be maintained and consistently supported so that Vermont may remain competitive in the global marketplace, positively benefiting the economic well-being of all Vermonters and contributing to the maintenance of our quality of life. Sustainable funding for tourism marketing is critical to promoting the Vermont brand and increasing the number of travelers to the state. State investments in marketing tourism supports Vermont's travel industry, which in turn contributes more than \$4 billion per year to the Vermont economy. The Council recommends that funding for tourism marketing be tied to a consistent, sustainable funding mechanism that provides adequate resources.

Collaborative Marketing and Promotion

- ***Continue and strengthen collaborative marketing and promotion of Vermont's brand.***

The Council heartily supports the strengthening and continued support of the collaborative Marketing and Promotion (MAP) team that now involves 16 state entities. For a state as small as Vermont, this collaboration strategy is vital to assuring a competitive edge in the marketplace. This team should be responsible for coordinating the cross-marketing efforts discussed above.

Agriculture

- ***Provide support for Vermont's agriculture production industry through funding for established programs.***

The Council believes it is imperative to support Vermont agriculture by assuring that family farmers have access to capital at rates which enable them to continue Vermont's heritage of family farming and to provide a working landscape which also supports Vermont's hospitality and tourism industry. The Council encourages the

continued implementation of the nutrient management and stream bank stabilization practices and recommends the legislature provide \$100,000 for annual practices cost-share programs. To ensure the continued success of the Conservation Reserve Enhancement Program, the Council recommends that the legislature provide \$100,000 in funding for CREP in the Lake Champlain Basin and consider up to \$250,000 so the program can be extended statewide. Interest rates charged under the Vermont Agricultural Credit Corporation (VACC) are higher than previous programs due to higher borrowing costs. The Council recommends that the legislature consider taking steps to support VACC such as backing up borrowing or subsidizing interest rates, especially during this especially difficult time for Vermont farmers. The Seal of Quality program identifies Vermont products and helps bring them to the marketplace. The Department of Agriculture estimates that \$100 million per year could re-circulate into the Vermont economy simply by Vermont consumers buying local products. The Council recommends an appropriation of \$150,000 annually for the active marketing of Vermont products through the Seal of Quality program. As mentioned above, every effort should be made to coordinate these efforts with all other marketing by the state.

In order to meet the State's planning needs for long-term agricultural viability in the face of global competition, The Vermont Council on Rural Development established the Vermont Agriculture Viability Council to build a practical plan to address agricultural sustainability and transition in the state. The VAVC is made up of farmers and policy leaders and has conducted hearings throughout the state, has analyzed major studies of the last 20 years, has commissioned an analysis of existing programs in Vermont and is building a systematic set of policy recommendations to the governor, legislature, partnering agencies and the agricultural industry. This report will be released in January 2003. The Council looks forward to receiving this report and will incorporate its findings into future VEPC long-range economic plan updates.

1996 VEPC RECOMMENDATIONS AND UPDATES

1996 Recommendation #18: An Enhanced Decentralized System of Economic Development Programs

VEPC recommended strengthening the decentralized delivery system for economic development programs through the various local, regional, state and federal partners such as the regional development corporations, regional planning commissions, chambers of commerce, regional marketing organizations, VEDA, VMEC, SBDC, VCRD, the WIBS, USDA Rural Development, US Small Business Administration, US Department of Commerce, and others. VEPC recommended increased state support for economic development programs, state funded partners and the regional assistance programs. VEPC also supported the institutionalization of joint planning by the regional organizations.

Update:

Department of Economic Development

The Department of Economic Development is charged with delivering economic development services and programs offered by the state and coordinating the efforts and services offered by the various partners. The department holds monthly meetings with all economic development partners to share information, assistance and best practices, thereby synchronizing both economic development services to Vermont, as well as coordinating the overarching strategy to meet the basic economic objectives. This has created a teamwork arrangement of all partners to participate and leverage each other's resources and opportunities.

An example of the department's partnership approach is fast response teams. If a region or the department identifies a business with a need or problem, a team is assembled to meet with the business to identify issues and inform the business of the assistance and programs

available. This allows the business to avoid multiple calls and visits and provides a seamless, one-stop approach to providing services.

The department has also sought to enhance services at a regional level through the Agency of Commerce and Community Development's creation of the regional block grant program (RBG). This program requires that the three main regional partners that the agency funds - regional development corporations (RDCs), regional planning corporations (RPCs), and regional marketing organizations (RMOs) - partner at the regional level to develop common work plan elements as well as a common vision for the region. The overall mission of the RBGs is to work more cooperatively in planning, development and marketing to better utilize the resources available to address the needs of those visiting, living, and doing business here. In 1999, the legislature approved an increase of funding to the RDC portion of the regional block grant from a fairly static \$491,000 to \$805,000 statewide.

As part of the strategy to enhance economic development at the regional level, the Commissioner of Economic Development has begun a process that provides the regions with resources and assistance to create a comprehensive analysis of regional economic development with a strategic plan, based on community objectives. The project represents an important next step in the department's strategic approach to supporting the competitiveness of strategic Vermont employers and the creation of high-quality employment opportunities.

1996 Recommendation #19: Strengthen Vermont's Downtowns
VEPC recommended passage of the Downtown Community Development Act.

Update:

Department of Housing and Community Affairs

The legislation establishing the Vermont Downtown Program was enacted authorizing a set of tax credits and a sales tax reallocation,

directing transportation funds to the designated downtowns, and delegating staff in the Department of Housing and Community Affairs to run the program. The program has also received one-time appropriations for a Downtown Reinvestment Fund, which made grants to projects in the designated downtowns. Under the program, 14 downtowns have been designated following the development of specific development plans by local organizations.

The success of the Vermont Downtown Program has gone a considerable way toward fulfillment of this recommendation. Fourteen municipalities have downtowns that meet program requirements making them eligible for benefits such as tax credits to property owners for rehabilitation of their buildings and grants for street improvements, and an easing of the Act 250 threshold. They also get priority consideration for training and technical assistance and state grant and assistance programs. Legislation passed in May 2002 adds new benefits for designated downtowns, and creates two new related programs, one for the "village centers" in smaller, rural municipalities, and one for "new town centers" in municipalities that have never had a real "downtown". These measures round out the foundation for a more comprehensive, incentive based community development program implementing state land use policy set forth in 24 VSA 4302, which requires that we preserve traditional land use patterns of compact village and urban centers surrounded by rural countryside.

Department of Tourism and Marketing

Since passage of the Downtown Development Act, the Department of Tourism and Marketing, through its own resources and the VDTM-contracted services of the Cultural Heritage Coordinator through the Vermont Arts Council, has collaborated with Regional Marketing Organizations and designated downtown leaders to increase the focus on downtowns as tourism destinations. Similarly, in the last several years, VDTM's Transportation Marketing Manager has worked closely with Amtrak, RMOs, and designated downtown leaders to best leverage the presence of rail transportation as a fundamental

tourism destination asset in those towns who host Amtrak passenger service.

1996 Recommendation #20: Small Business Development Center (SBDC) Staffing

VEPC recommended increased funding for the SBDC to complete staffing needs in field offices throughout Vermont.

Update:

Small Business Development Centers

The success of the SBDC, where counselors located in each of the state's twelve regions provide free information and assistance to start-up ventures and existing small businesses, continues to be phenomenal. To date the SBDC has provided over 44,000 hours of free business counseling to over 11,000 clients. From 2000 to 2001, SBDC clients created \$48 million in new personal income, created 1600 jobs, and contributed \$3.2 million in incremental tax revenues back to the Vermont treasury. The SBDC has been receiving \$292,000 from the state, supplemented by a CDBG contract for a total of approximately \$342,000. That equates to almost a ten to one return on the state's investment in the program.

The SBDC has continued to grow to meet market need for its services over the past ten years. In 1996, VEPC supported a three year market driven staffing and funding plan, which the SBDC was able to achieve by 1998 with only half the required state funding. The SBDC was able to do this by leveraging additional federal dollars, and through a unique partnership with U.S.D.A. Rural Development, which provided three counselors at no cost to the SBDC. Currently, USDA/ Rural Development has had to redirect the USDA resources to other mandated agency duties, leaving a substantial gap in SBDC coverage in Addison, Franklin, and Windham counties.

1996 Recommendation #21: Preserve VEDA's Role as an Economic Development Tool

VEPC supported the creation of alternative funding mechanisms for Vermont Economic Development Authority (VEDA) loans, such as bonding or interest-rate buy downs, to preserve low-interest rates on certain types of VEDA loans.

Update:

Vermont Economic Development Authority

VEDA's financing programs have long been a cornerstone of Vermont's economic development strategy. In the 1996 legislative session, the General Assembly amended VEDA's enabling legislation to allow VEDA to "recapitalize". It also combined VEDA's two main commercial lending programs, Subchapter 3 and Subchapter 5 into the Vermont Jobs Fund. The recapitalization program included three steps, or phases.

In Phase I, VEDA issued \$16.8 million of bonds secured by approximately \$30 million of its existing Jobs Fund loans. These bonds were issued in October 1997 and the proceeds were deposited into a trust fund. In December 1997, VEDA completed Phase II of the program and began issuing commercial paper backed by this trust fund and a \$25 million moral obligation pledge of the State of Vermont. The funds from the issuance of this commercial paper are used for lending.

While this innovative financing structure allowed VEDA access to the capital markets and an adequate supply of loan funds, it necessitated higher lending rates. In 1998, in order to be able to offer the competitive interest rates necessary to encourage economic development lending, VEDA approached the legislature to release a \$4.2 million reserve fund established for VEDA in 1992 which was no longer need. The 1998-1999 legislature appropriated \$2.7 million to VEDA, using the \$ 1.5 million balance of VEDA's \$4.2 million request to fund employment training.

These funds are currently being used to subsidize the interest rate on loans (Phase III). The Recapitalization Program has been successful

and for the foreseeable future, it would appear that VEDA has sufficient funds for lending. VEDA anticipates that the funding made available for interest rate subsidies will enable it to offer attractive economic development incentive rates for the next several years, depending of course on loan volume.

1996 Recommendation #22: Implementing AAPs and BMPs

VEPC recommended that the Department of Agriculture perform a farm-based analysis when selecting applicants and allocating funds. This analysis favors farms that are most likely to stay in business.

Update:

Department of Agriculture

The Vermont Department of Agriculture, Food & Markets administers the Best Management Practice Cost Share Program (BMP program). This is a voluntary program designed to help farmers defer a portion of the cost of implementing structures on their farms. State dollars are used in conjunction with Federal financial assistance programs. Farmers' eligibility for the programs are determined by Federal guidelines. To date, State dollars have been available to match dollars awarded to farmers enrolled in Federal programs. Since 1996, the Department has obligated \$4.8 million to farmers for BMP construction. The Department received \$900,000 in FY'02 to fund BMP structures. Another \$850,000 is expected in FY'03. A great deal of progress has been made to implement structures on Vermont's farms. However, there are still many farms that need financial assistance. Farms must meet Federal eligibility guidelines, which are based on specific cost/benefit criteria.

Annual Practices - In FY 2002, the Department received general fund dollars to address annual practice needs. Annual practices are non-structural best management practices (BMP's) designed to reduce the levels of nutrients entering Vermont's waters. A total of \$101,596 has been earmarked to fund the implementation of 49 non_animal waste practices on 28 farms, primarily nutrient management and stream

bank stabilization. Annual practice implementation is a vital component in the battle to reduce nutrient loading to waters of the State. Before last year, the State did not have funds to match the federal programs for annual practices. The Department is hopeful to receive a similar amount of funding from the Legislature this session.

Conservation Reserve Enhancement Program - In September 2001, the Governor signed a formal agreement between the State of Vermont and United States Department of Agriculture to launch a Conservation Reserve Enhancement Program (CREP) in the Lake Champlain Basin. The goal of this program is to take 1,000 acres of cropland and marginal pastureland along the watercourses of Lake Champlain out of agricultural production and install conservation practices designed to improve water quality. During the first six months of the CREP program, 467.5 acres have been enrolled in 10 to 30 year easements. As word of this program spreads, the Department anticipates an increased number of landowners will wish to participate in the program.

1996 Recommendation #23: Determine Agricultural Lending Policy

VEPC recommended continued work by a group convened by VEDA to deal with concerns regarding the lifting of a moratorium on principal repayment on federally guaranteed agriculture loans.

Update:

Vermont Economic Development Authority

The Debt Stabilization Program (DSP) was created in 1988 at a time when Vermont's agricultural economy was in some disarray. It was designed to assist farmers having cash flow difficulties by refinancing and reamortizing their operating debt over a longer term. The program was assigned to VEDA to manage and initially, funds for this lending were borrowed from a consortium of Vermont banks.

In 1993, when the initial funds ran out, in order to extend the life of the program, VEDA began selling the guaranteed portion of the loans.

In 1998, when it became evident that the program was destined to run out of funds for lending, VEDA convened an agricultural task force made up of stakeholders from the farm community to discuss what VEDA's role in agricultural lending should be going forward. The task force strongly supported continuation of farm lending by VEDA and stated the strong belief that if VEDA were to abandon its position as "lender of last resort", many farmers would not be able to access needed credit.

As a result, legislation combining the DSP and AFP (a smaller program that had been operated by VEDA since 1986) into the Vermont Agricultural Credit Program (VACC) was enacted. VACC was established as a non-profit subsidiary of VEDA. The General Assembly also appropriated \$3.5 Million to capitalize the VACC.

Since its inception in 1999, VACC has operated successfully and allowed Vermont farmers' access to over \$16.1 million in needed capital. Nonetheless, the interest rates charged to Vermont farmers under the program are somewhat higher than they were under the DSP. The reason for this is that VACC's borrowing costs are higher than were DSP's, in part because the State's full faith and credit support was not made available to backup VACC's borrowings. To assist farmers during what has been an especially difficult period brought about by the rising costs of inputs and the volatile price of milk, VACC has utilized some of its limited resources to subsidize its rates to borrowers.

1996 Recommendation # 24: Strengthen Connections Between Vermont and the International Community

VEPC recommended a full merger of the Vermont World Trade Office (VWTO) and the Department of Economic Development's International Trade program, the development of a comprehensive strategy for export trade and relocations, and funding of the VWTO at \$100,000 per year. VEPC further recommended that the VWTO track vital indicators of international trade and issue periodic updates of their strategic plan.

Update:

Vermont World Trade Office

The international community within the state of Vermont has undergone significant change within the past two years. Most notably, the collaboration and cooperation between the state of Vermont and the Vermont World Trade Office, Inc. (VWTO) has been formalized through legislation that enables the Department of Economic Development to provide support through a shared role with the Director of International Trade and Investment. The person that serves in this position acts as the Executive Director of the VWTO in order to share costs and provide more streamlined international business support to Vermont's international community.

The Vermont International Trade Alliance has been supportive and has provided insight and direction for the Department of Economic Development and the VWTO. There has been a strong commitment to a continued relationship between the international service providers in the state, who continue to meet on a monthly basis to discuss their programs, priorities and share ideas about the resources available to businesses.

Federal grants that were awarded to the Vermont World Trade Office in 1998 have been an invaluable resource to the businesses of the state and the international trade community. The money has increased the state's services in regards to international trade development and outreach programs. The VWTO has been able to increase services to Vermont's import and export community and as a result has been successful in diversifying the markets in which Vermont businesses conduct trade. Recently, the VWTO was awarded another grant of \$250,000 to continue with our collaborated efforts and continue to maintain professional, comprehensive trade and export advice and information. The services have increased dramatically over the past year and include: an international trade specialist; complete and comprehensive package of services and information that apply to all

levels of Vermont's business community exploring international business ventures; database management and maintenance to capture and review information provided by clients; enhanced website presence for the international business community; resources and support for the International Trade Alliance; educational seminars; and the Vermont World Trade Day event.

1996 Recommendation #25: Expand Travel & Tourism

VEPC supported the Vermont Department of Tourism and Marketing's (VDTM) strategy to preserve and expand the short-trip, weekend travel market while exploring new markets for Vermont. The Council also supported implementation of the recommendations made by the Cultural Heritage Tourism Task Force. The Council recommended an investment by the state in the promotion of Vermont through formula funding for VDTM. It further recommended funding for the Vermont Film Commission.

Update:

Department of Tourism and Marketing

Tourism accounts for about 15 percent of Vermont's gross state product, contributing an estimated \$4.2 billion in total economic impact to the state in the year 2000 (\$2.6 billion in direct spending). Tourism is a growth industry in Vermont, with consistent gains in both the number of visitors and related tax receipts.

An important investment in the study of Vermont's tourism economy since 1998 has been the Department of Tourism and Marketing's increased funding support of the University of Vermont Tourism Data Center research program. For the first time in its contracted service relationship to VDTM, the Tourism Data Center has collaborated with the UVM's School of Business and Department of Community Development and Applied Economics to produce annual reports of consistently measured data on Vermont tourism's economic impact, visitor trends, and visitor profiles in terms of seasonal visitation, visitor interest areas, and spending patterns.

UVM's research confirmed that Vermont (located within a day's drive of approximately 50 million people) draws the vast majority of its 12.2 million "person trips" from the New England and Mid-Atlantic States (New York, Pennsylvania and New Jersey). Summer ranks as Vermont's most heavily traveled season, followed by fall, winter and spring. Increasingly, this research has become the core foundation guiding the annual and seasonal promotional strategies of VDTM and their marketing partners.

Similarly, for the first time, research has confirmed Vermont's brand identity as a tourism destination. A branding study conducted in 1998 showed that in consumers' eyes, Vermont is a place of peace, rest and relaxation, unique natural beauty, and authenticity of experience. UVM's research showed us that Vermont has roughly 1000 lodging properties throughout the state, and that 48% of those have 10 rooms or less. Research also estimated our average statewide annual occupancy levels in the year 2000 to be approximately 41%.

Since 1998, VDTM's strategic approach to marketing Vermont to a global audience has centered around an integrated presentation of our state's assets, through all media applications, focusing on five core themes: Agricultural Heritage, Cultural Heritage, Natural Heritage, Four-Season Outdoor Recreation, and Vermont-Made Products. Presenting this integrated brand image has required an unprecedented level of coordination and collaboration with our public and private sector marketing partners. (see Coordinated State Marketing Programs section below).

For three years, VDTM has contracted for the coordination of the state's Cultural Heritage Tourism program through the Vermont Arts Council, and has partnered for the last two years with the Vermont Farms! Association, the Department of Agriculture, Food and Markets, and the George Aiken Rural Conservation and Development office to sponsor coordination of the state's Agricultural Tourism Program.

In ever-increasing numbers, travelers are using the Internet to conduct their pre-trip planning; relying less and less on traditional means of acquiring information through phone calling, and packet requests. More and more consumers are now traveling within days of making their decision to travel, rather than the traditional pattern of waiting six-months between decision and actual travel. These changes in traveler trends have required that Vermont flexibly adapt as never before to utilize the best, most direct ways of providing travelers with information about – and access to -- our state's business resources and wealth of destination assets.

In the last three years, the Vermont Department of Tourism and Marketing, with substantial grant assistance provided through the Federal Highway Administration's Intelligent Transportation System (ITS) program, has worked in close collaboration with the Agency of Transportation, the Department of Economic Development, the Department of State Buildings and General Services, the Department of Fish & Wildlife, other state partners, and the state's Regional Marketing Organizations, to develop a new integrated information technology system called "ConnectVermont." The Department of Economic Development's new Vermont Business Registry constitutes the consolidated database for the "ConnectVermont" system, and was developed so that each business and organization in the state can register and regularly update their own individual records, at no cost to the business.

In August 2001, VDTM launched a new tourism website, introducing the new Vermont Travel Planner as an initial application of the ConnectVermont consolidated database system. Using the Vermont Travel Planner, travelers to Vermont can locate an individual restaurant, event, attraction, region, or lodging property and click straight through to that region or property. They can also map their way to their chosen destination. Several ConnectVermont electronic kiosks have already been deployed in official state visitor and welcome centers, with more scheduled for installation in 2002. In upcoming phases of the ConnectVermont project, other planned information integration and deployment strategies include en-route

traveler information systems, 511 toll-free telephone travel information services, weather and road condition forecasting systems, and traffic/construction update services.

VDTM now focuses all traditional marketing media applications – television, public relations, print, radio, and Vermont Life Explorer direct mail -- on driving consumers to the electronic version of the Vermont Life Explorer and the Vermont Travel Planner at www.VermontVacation.com. This integrated approach to marketing is the best and most effective way for Vermont to remain competitive in an increasingly competitive global destination marketplace.

Maintaining direct partnering relationships with international and domestic tour operators, travel agents, and travel trade media remains an underpinning of VDTM's international and domestic sales programs. The state's international promotion program, conducted in close cooperation with Discover New England and Vermont private sector partners, focuses most heavily in our primary markets of the United Kingdom and Germany. In recent years, Vermont has also committed significant time and resources to building solid relationships with promotional partners in Japan, where Vermont-made fine crafts have proven to be a predominant interest of consumers.

1996 Recommendation #26: Industry-Based Marketing Efforts

VEPC recommended that the Vermont Wood Manufacturing Association and the Rural Economic Development Work Group develop a set of joint recommendations that address the impediments to expansion of the crucial resource-based industry. VEPC also recommended that other industry groups develop similar partnerships.

Update:

Department of Economic Development

In response to the Council's 1996 recommendation, the Department of Economic Development embarked on a project in partnership with the

Vermont Wood Manufacturers Association (VWMA) to analyze Vermont's wood products industry and map out a plan to meet the challenges of the next five to ten years from a position of strength. The consultant's recommendation was for the industry and state to work together to develop a "compelling reason" for consumers to want to purchase Vermont wood products through a unified branding program.

The department is currently undertaking a comprehensive brand analysis of the wood products industry in Vermont, which will culminate in a strategic plan for the development and promotion of the brand. It will:

- Examine Vermont's brand as it applies to the secondary (or value added) wood products industry in national, continental, and global contexts.
- Determine the importance and relevance of the Vermont brand, its potential, and the benefits of branding to members of this diverse industry.
- Develop a Strategic Brand Marketing Plan for secondary wood products industry that enables the industry to position itself optimally and to ensure sustained growth and competitiveness based on the brand.

The department is currently finishing up the branding effort for the industry and plans to work with the VWMA and other wood products associations to begin implementation by year's end. Based on the success of this branding endeavor, the department will look at other important Vermont industry sectors to determine similar strategies.

Vermont Council on Rural Development.

In June 2001, the Vermont Council on Rural Development (VCRD) instituted the Vermont Forest Products Council (VFPC), designed to evaluate the needs of the value-added sector and build policy recommendations for the Governor's Office, state and federal delegations and agencies, and private sector parties. The Council consists of representatives from federal, state, local governmental agencies in addition to private sector enterprises. The VFPC's two-

year mission is to develop public policy proposals to build incentives for value-added wood products and promote the wise use of Vermont forest resources.

Vermont Environmental Consortium

The Vermont Environmental Consortium is a member organization of environmental products and services companies that is actively engaged in joint marketing opportunities and seeking projects both nationally and internationally. While the size of the member companies is small, by combining their unique capacities together they look to competitively bid on larger projects. Membership is expanding and Norwich University has offered to provide management and staffing to complement the University's interests in environmental engineering.

Vermont Sustainable Jobs Fund

The Vermont Sustainable Jobs Fund has undertaken initiatives to coordinate the marketing and job creation efforts of several industry sectors in Vermont. These efforts have included a High Technology Business Cluster, a Medical Transcription Education Consortium, the Vermont Family Forests, the Vermont Cheese Council and the Vermont Quality Meats Cooperative.

1996 Recommendation #27: Coordinated State Marketing Programs
VEPC supported the concept of a joint marketing effort coordinated by the Vermont Department of Tourism and Marketing (VDTM) and urged all state entities to comply with the statute and assist VDTM in bringing the marketing efforts together.

Update:

Department of Tourism and Marketing

In 1996, the Vermont General Assembly passed Act 190, calling for the Vermont Department of Tourism and Marketing to expand its scope of responsibilities to include the coordination of the marketing

efforts of all state government departments. It was clear that the intent of the Legislature was to maximize economic efficiencies and promotional effectiveness through a more collaborative approach to state marketing.

Today, sixteen state departments, divisions, and agencies collaborating together as the Marketing and Promotions (M.A.P.) team, share jointly-contracted promotional and technology services to support the following mission: “To communicate the qualities of Vermont and its people, places, services and products for the long-term benefit of all Vermonters. We realize the synergies in communicating and achieve savings through operational efficiencies by regularly sharing ideas, information and resources.”

The M.A.P. Team includes the Departments of Tourism and Marketing, Agriculture, Food & Markets, Economic Development, Employment and Training, Environmental Conservation, Fish & Wildlife, Forests, Parks & Recreation, Personnel and Vocational Rehabilitation, as well as the Agency of Natural Resources central office, the Vermont Arts Council, the Vermont Economic Development Authority (VEDA), the Division of Historic Preservation, the Information Centers Division, the Film Commission and BISHCA.

Because Vermont’s tourism industry is vital to the state’s economy, M.A.P. partners who market to a global audience have banded together for press events, state tours, and other media efforts, contributing to an ad equivalent value of \$69 million in editorial coverage about Vermont in FY2001. Together, M.A.P. partners have acquired a body of photographic images that can be used by all the partnering departments, resulting in several thousands of dollars in tax dollar savings. From July 1, 2000 through May 15, 2001, M.A.P. partners achieved savings of \$279,750 in contractual expenses alone. Additionally, the group combined \$654,494 in State advertising dollars for collaborative print, radio and newspaper advertising carrying the message of two or more partners.

1996 Recommendation #28: Vermont Training Program Support
VEPC recommended increased funding for the Vermont Training Program and a revision to the minimum wage factor used in the eligibility criteria of the program.

Update:

Department of Economic Development

The Vermont Training Program promotes industrial expansion by providing training for new and existing businesses. The program offers training funds for the creation of new positions, assisting employers to remain competitive through programs to train incumbent employees to learn new and advanced technologies, assistance with ISO-9000:2000 Standards and Lean Manufacturing, and assistance to retain employees through upgrade and cross training. Since 1994, the program has served 915 companies statewide and trained 8,162 employees.

1996 Recommendation #29: Education as a Growth Industry
VEPC recommended the development of an integrated plan by Vermont institutions of higher learning to market themselves or ensure that marketing programs do not unnecessarily overlap.

Update:

The University of Vermont and the Vermont State Colleges have spent considerable effort to coordinate programs and services throughout Vermont. Examples are the Community College of Vermont/UVM articulation agreement, the Castleton State College/Johnson State College/Lyndon State College /UVM/St. Michaels collaborative in Special Education educator preparation, the Vermont Technical College /UVM FARMS program, the proposed transfer of Dental Hygiene from UVM to VTC, and the on-going collaborative efforts through the Vermont Public Education Partnership and the Commission on Higher Education Funding.

Policy Area Four

A World-Class Workforce

INTRODUCTION

Workforce development can be defined as a continuum of education and training to prepare and maintain a workforce that is ready to meet the needs of individuals and employers and that will continue to meet those needs as they evolve. The Human Resources Investment Council (HRIC) was established in 1993 to compliment the broader long-range economic planning role of VEPC, and was charged with advising the governor and legislature on the creation of a comprehensive workforce education and training system. The HRIC includes representatives of the private sector, public sector agencies and institutions, labor and legislators. The HRIC, together with the regional Workforce Investment Boards (WIBs), coordinates employer needs with education and training investments and supports employer-provided training and education. The HRIC envisions a system that provides lifelong learning opportunities resulting in good jobs and a competitive advantage for Vermont businesses.

Workforce development is the most important element to be addressed to ensure a vibrant economy, especially to be competitive in the new economy. Permitting an expansion or obtaining the necessary telecommunications access will not matter if a company cannot find educated and motivated Vermonters to employ. They will go where they can find the workforce. The O'Neal Group branding study found that after the permitting process, difficulty recruiting key people was the leading disadvantage to doing business in Vermont. It was ranked first by high-tech companies. The correlation between lifelong learning and earning potential is growing. A highly skilled and continuously learning workforce is critical to the success of our employers in the future.

SUMMARY OF MAJOR ISSUES:

Demand and Response: The education and training of the workforce, at all levels, has not kept pace with the skill sets required by many businesses, especially those businesses that compete in the global economy. Over time, even though the performance of our education system has steadily improved, skills taught have been outpaced by the skills required to obtain and hold a job that pays a family-supporting wage. This has occurred for many reasons. In the last few decades the skills required to be qualified for an average wage job have escalated significantly. Vermont levels of education are among the highest in the country, and dropout rates are among the lowest in the country. Nevertheless, Vermont has 80,000 people who cannot read or write at a middle school level and the state's high school drop out rate is 20%. A major cause of the skills gap is the rapid pace of change in technology and the quicker adoption of technology by industry relative to the rate of change in education and training systems. Also, there is an implementation lag in the expenditure of public and private funding to bridge the skills gap.

Demographics: The Vermont workforce is not expected to grow over the next ten years. Not only is there a shortage in the skilled labor force, there is a shortage of a labor force. As the overall population ages, so does the workforce. In addition, Vermont is losing its young population at a pace much higher than the national average. From 1990 to 2000, Vermont lost young people at a rate nearly four times the U.S. average (for age group 20-34, 19% compared to 5.4%). During the same period, in four Vermont counties, the rate of decline in the 20-34 years category exceeded 25%. Further, other typical sources of workforce growth are not available in Vermont. The State has among the Nation's highest rate of women in the workforce, so there will be little growth here, and the State has a low rate of immigration compared to competing States. As a result of these factors, productivity growth, which traditionally has been achieved by adding workers will now have to come from increasing the productivity of the existing workforce. Also, Vermont must tap into

groups that are traditionally left behind yet comprise a significant number of potential workers. They include dropouts, adults on public support, ex-offenders, and people with disabilities. The reasons for the lack of labor force growth are the subject for other reports. For this report, the issue is ensuring that our education and training system is capable of providing our citizens with the education and training they need to qualify for good jobs, and providing employers with a competitive workforce.

Strategic Direction: There are two ways Vermont can address the workforce preparation challenge. One is to respond to the needs of business as they arise and make public and private investments in workforce development assuming that the direction is good and correct. Building a system that can identify and respond quickly to opportunities continues to be an important priority. At the same time, we must also view our investments in workforce education and training as an opportunity to lead the direction of the economy. The research under way by the Department of Economic Development to identify Vermont's strategic industries will also identify businesses and business sectors that have the best potential for creating good jobs. We can then identify those businesses and business sectors that are worker skill dependent and begin to direct education and training resources to ensure that the necessary workforce is available.

Public Expenditures: Two thirds of the public expenditures for workforce development in Vermont come from the federal government through programs authorized by or linked to the Workforce Investment Act of 1998. The state provides about one third of these funds, including public expenditures on technical education centers and adult education programs. The expenditure of these funds is coordinated through the HRIC, and the funds are administered through the Agency of Human Services, Department of Education, the Department of Employment and Training, the Agency of Commerce and Community Development, PATH, UVM, and the Vermont State Colleges.

POLICY OBJECTIVES

The Council has kept the following policy objectives in mind while developing recommendations regarding workforce development:

- Establish a system that provides lifelong learning opportunities resulting in good jobs for Vermonters and a competitive advantage for Vermont employers;
- Ensure the development, implementation and utilization of an integrated, results oriented workforce education and training system.

2002 VEPC RECOMMENDATIONS

Educational Preparation of the Workforce

- *Place greater emphasis, starting at the earliest level possible, on instilling an awareness of every students' eventual participation in the economy and career exploration, as well as the role that business plays in generating jobs, supporting the economy and helping to maintain our quality of life.*

VEPC believes it is essential to our economic success that our educational programs take a comprehensive educational approach and have strong content in basic life skills, career exploration and career options awareness and knowledge that will give students the flexibility and personal resilience to adapt to change. Improvements to our educational systems should ensure a quality K through 12, technical education, and post-secondary education system that is accessible to all students. Our educational system must produce young adults who can read, write and speak their own language (and preferably one other), are numerate, literate in the great ideas and cultural movements, knowledgeable about world history, natural and applied science concepts and proficient in basic skills of life, such as managing money, using a computer, articulating an idea concisely verbally and in writing. The Council recommends that greater emphasis be placed, starting at the earliest level possible, on instilling an awareness of every student's eventual participation in the economy and career exploration, as well as the role that business plays in

generating jobs, supporting the economy and helping to maintain our quality of life. This should include inclusion of concepts that develop and refine workplace ethics and expose students to workplace skills and career options.

Coordination of Workforce Development Program Implementation

- ***Make workforce development a priority for the administration, assign responsibility for it to a ranking person on the governor's staff and work closely with the HRIC to study the best option for the coordination of workforce development program implementation.***

An issue that concerns VEPC is that the coordination of the implementation of workforce development efforts are not directed and coordinated by a cabinet level position in the administration. They are funded through multiple federal and state programs and implemented through programs managed by several state and regional entities. Coordination of these programs has been accomplished through the collaboration by the department heads and directors of these programs, who serve on the HRIC. VEPC supports these collaborative efforts but remains concerned that the problems inherent in trying to coordinate the goals, visions, programs and funding mechanisms of so many entities may not be possible. In addition to employee and agency head turnover, changes in policy inherent with changes in federal and state administration, and shifts in funding availability, each entity has its own set of priorities. An example of an issue that has suffered because of this situation is gaining consensus on the coordination of technical education and workforce development. Because of the importance of the workforce development issue to the business community and to our economic success, the Council recommends that the next governor recognize its importance, make it a priority for the administration, and assign responsibility for it to a ranking person on the governor's staff. That person should work closely with the HRIC to study the best option for the coordination of workforce development program implementation.

Workforce Development Priorities

- ***Fund and implement the strategic industry research and utilize the results to direct workforce development investment strategies.***

VEPC believes that efforts to prepare our workforce in response to immediate and critical shortage needs should focus on the traditional sectors present in Vermont such as teachers, construction, agriculture, nurses and other medical personnel, hospitality and tourism, natural resource-based industries and manufacturing. The study of emerging and strategic industries being developed by the Department of Economic Development will help with the development of strategies to target workforce development investments for the long-term needs of the state's strategic industries and emerging needs such as manufacturing, information technology, telecommunications, and high-tech industries. Because of the need to target limited resources, the Council reiterates the recommendation that the strategic industry research be funded and implemented and that workforce development investment strategies utilize the results of that research.

Technical Education Centers

- ***Fund a long-term plan for developing and operating technical education centers in addition to those already under development and fund the development of the centers.***

The Council supports ongoing improvements to all the state's existing technical education centers. In addition, the Council recommends funding of a long-term plan for developing and operating technical education centers in addition to those already under development. The Council supports the concept of the centers operating as comprehensive workforce development institutions that utilize existing programs and coordinate with other institutions to provide secondary technical education, adult technical education and training, postsecondary credit-bearing and certificate programming, apprenticeship training, and customized training for businesses. The centers should be geographically accessible and all projects should

involve a minimum of a 75% state funding commitment through development and construction in combination with federal and private sector funding. Operating budgets would be funded through a mix of state appropriations and local or regional revenue-raising options. The centers should have strong boards with significant business, college and partner agency participation and have business-driven, regionally responsive workforce development leadership and strategic planning.

The Council recommends that the long-term plan address the issue of whether the mission of existing technical centers should be expanded to be comprehensive workforce development centers or if centers should be developed on a regional basis. If regionally, the plan should detail how many, where they should be located and what happens to the existing technical education centers. Also, the plan should address funding for the centers, including the leveraging of private sector investment. Finally, the plan should address the role of the high schools in vocational preparation in concert with the technical centers. The plan should be developed by the institutions and agencies involved in workforce development and technical education, including the local workforce investment boards.

The Council also endorses the recommendations made by the Vermont Board of Education and the HRIC in the January 2002 report *Improvement of Vermont's System of Career and Technical Education*. Specifically, the Council recommends:

- A change in statute that enables technical centers to establish and build reserve funds to prepare for future facility and equipment needs;
- Retention of Program Innovation Grants to cover the costs to start new programs that prepare students for emerging high-skill, high-wage employment;
- A requirement that any new programs include industry and/or post-secondary accreditation and instruction leading to industry credentials; and that current programs work toward adopting industry skill standards;
- A system to provide annual funding for equipment replacement;

- Enforcement of regional school calendars so that high school and technical center programs can align.

Higher Education

- ***Renew the commitment to higher education in Vermont by renewing the Compact With the State of Vermont and increase funding for public higher education.***

The Council endorses the recommendations made by the Commission on Higher Education Funding in the February 15, 2002 report *Meeting Critical Needs for a Changing World*.

The Council also recommends that the new legislature and governor review the Compact With the State of Vermont and reaffirm the commitment to its goals.

The Council recommends that the state appropriation levels for public higher education be increased with the goal of returning to the equivalent levels of FY1990 within five years.

The Council supports the work of the Vermont Public Education Partnership and urges support for its strategies to address critical shortages in areas such as nursing, education, and information technology.

Workforce Development Staff at Higher Education Institutions

- ***Appropriate \$225,000 each year for not less than five years for five new professional development staff to be job training and curriculum development professionals focused on workforce development training.***

A key to successful workforce development is to build a culture of cooperation and service of needs between the state's key employers and key institutions of higher education. Institutions of higher education should undertake substantial curriculum development and develop skills training programs that would specifically meet the

needs of Vermont's strategic industries. Such an initiative would assist young Vermonters seeking quality career opportunities and also meet the continuing educational and training needs of working Vermonters. The Council recommends funding of \$225,000 each year for not less than five years for five new professional development staff at the Vermont State Colleges, University of Vermont and other higher educational institutions throughout the state. These individuals would be job training and curriculum development professionals focused on workforce development training. The goal at the end of five years should be sustainable funding of the positions through training contracts.

Broaden Apprenticeship Programs

- ***Develop formal Vermont apprenticeship experiences for specific skills sets required by Vermont's strategic industries.***

The Council supports the continuation of efforts by the Department of Employment and Training to expand its Registered Apprenticeship Program beyond traditional programs now offered, through collaboration with the technical education centers, the regional development corporations, and the local workforce investment boards. This program should develop formal Vermont apprenticeship experiences for specific skills sets required by Vermont's strategic industries to build a high performance workforce for strategic industries and other key employers facing competitive pressures. Apprenticeships will give young Vermonters a quality career opportunity that is outside the traditional K-12/post secondary approach. It also could be used to facilitate the transition for dislocated Vermont workers to new career opportunities.

Utilize Distance Learning

- ***Use distance learning technology, such as Vermont Interactive Television and online classes, to improve the skills and earning power of Vermont workers.***

The Council supports the use of distance learning technology, such as Vermont Interactive Television and online classes, to improve the skills and earning power of Vermont workers. Utilization of distance learning provides a convenient method of learning for those who currently work all day and have to drive a distance to attend classes. It is also a method of ensuring users have the tools and skills to meet new workplace demands. The Council recommends that workforce training programs such as apprenticeship training consider the use of distance learning whenever possible.

Implementation of WIB Plans

- ***Appropriate \$1,000,000 beginning in FY 2004 to facilitate the implementation of new training programs identified by regional workforce training plans.***

The state should build upon the existing HRIC planning effort that is currently underway at the state level and completed at the regional level. Substantial progress has been made to integrate the skills and essential cognitive needs of regional employers into regional workforce development plans. It is now necessary to fund the implementation of those plans. The Council supports the establishment of an annual appropriation of \$1,000,000 beginning in FY 2004 to facilitate the implementation of new training programs identified by regional workforce training plans developed by the workforce investment boards. Funds should be in addition to existing training funds and made available on a competitive basis, administered by the Departments of Employment and Training and Economic Development with the process overseen by the HRIC. It is expected that this effort will meet both educational and training needs of working Vermonters, and help establish the needed culture of life-long learning.

Workforce Development Tax Incentive

- ***Re-design the workforce development tax credit in the Economic Advancement Tax Incentive program.***

Job training tax incentives should leverage private sector investments in job training, skills development and life-long learning for the Vermont workforce. The Council recommends a re-design of the workforce development tax credit in the Economic Advancement Tax Incentive program. The job training tax credit needs to be updated to provide meaningful leverage to support private sector investments in job training and workforce development. The credit should not only pertain to new entrants to the labor pool, but also help to retool the incumbent workforce.

School-to-Work

- ***Support and expand school-to-work initiatives throughout the state.***

The Council heard testimony that work-based learning activities, if well planned and executed, reduce absenteeism, raise academic performance, stimulate motivation and focus career exploration. One example is the Learn-to-Earn program. According to the businesses, teachers and students involved in Learn-to-Earn, it is a very effective and successful program that encourages teens to enroll in higher level science, math and technology courses to help prepare them for the growing number of high-tech careers. The Council supports the various school-to-work initiatives started around the state and recommends that they be strengthened, replicated and broadened.

Child Care

- ***Ensure the integration of childcare issues into regional economic plans funded by the state and convene a task force to develop a strategy to address the issues raised by the childcare study.***

One of the concerns raised by employers and employees alike is the insufficient supply of reliable, affordable, accessible childcare in Vermont. According to the study, “The Economic Impact of Vermont’s Child Care Industry”, childcare employs about 5000 people and there are about 37,500 working parents, employed by over

11,000 Vermont businesses, who rely on childcare services. Parents who cannot find or afford childcare are less likely to enter the workforce, be productive at work, and remain employed. Because of the importance of early childhood education, the quality of childcare affects the future workforce. Clearly, the lack of reliable, affordable childcare has a negative impact on the economy. The Council recommends that the Department of Economic Development require the integration of childcare issues into the regional economic plans they are funding. Further, the Council recommends that the Department of Social Services, in cooperation with other relevant departments, convene a task force to develop a strategy to address the issues raised by the childcare study, such as financing childcare infrastructure, business assistance for childcare providers, and childcare workforce development.

Online Services

- ***Ensure that all One-Stop Career Centers are equipped with the most effective and up-to-date online job search and career development software, resources and materials.***

The Council recommends that the Department of Employment and Training ensure that all of its One-Stop Career Centers are equipped with the most effective and up-to-date online job search and career development software, resources and materials. Further, the Council strongly supports DET’s current effort, called Vermont Job Link, to put all job placement and career development services, including a directory of services, online so that the services can be accessed without visiting a One-Stop Center. The goal should be a virtual One-Stop Center.

1996 VEPC RECOMMENDATIONS AND UPDATES

1996 Recommendation #30: Build on The Green Mountain Challenge

VEPC supported efforts of the Board of Education to implement changes recommended by the Green Mountain Challenge,

including the development of performance standards, development of a comprehensive assessment system, and a system that provides opportunities for all students to learn. The Council also supported local efforts to develop curriculum and assessment tools to meet statewide standards set forth in the Vermont Framework of Standards and Learning Opportunities. The Council also supported the use of the Vermont School Report as a tool to identify schools that need assistance.

Update:

Department of Education

Vermont has conducted three years of assessment in language and math skills at the 4th, 8th and 10th grades. This year, assessment in science was initiated. Overall, there is improvement statewide in student performance. High school students generally do not perform as well as elementary and middle school students.

The Department of Education has five school improvement coordinators that work with thirty-nine schools that are not meeting state standards for student performance. Half of these are high schools. Improvement coordinators help develop and implement effective action plans to improve student performance. The state also contracts with master teachers in reading, literacy, and mathematics to train faculty on teaching strategies that will improve student performance.

The Department of Education has also received a three-year federal grant to create a statewide system for educator preparation and professional development. Through this grant, five regional teacher quality networks have been established to enable schools to access high quality professional development. In addition, there is a high school improvement initiative, which has issued a report, “High Schools on the Move”, that describes 12 principles around which high schools can build their school improvement efforts. Vermont was one of five states to receive a high school reform grant for \$1 million.

This grant is focused on providing academic and technical education to students through a career focus.

Educator Quality

There have been several, often inter-linked, initiatives regarding educator quality over the past few years. These initiatives recognize that the quality of our workforce preparation depends on the quality of our K-12 educators. The initiatives include:

- The Vermont Public Education Partnership – A collaboration of the VSC Chancellor, President of UVM, Commissioner of Education, VSAC, and AHS. The collaborative has issued a report, An Alliance for Learning and Opportunity, focusing on educator quality, special education, dual enrollment and distance learning;
- The Vermont Leadership Initiative – Includes several projects aimed at ensuring availability and training to avoid losing 20 % of our principals, technical center directors, and special education teachers each year;
- Vermont Math, Science and Reading Institutes – Providing high-quality advanced instruction and support to develop “teacher leaders” in vital elementary and middle-school areas;
- Teacher Preparation and Licensing – Vermont has revised its program and system of standards under which K-12 teaching licenses are issued, so that licensure standards are both higher and aligned with the state’s Framework of Standards and Learning Opportunities;
- Teacher Quality Enhancement Project – Vermont is in the second year of a three-year federal grant that has, among other outcomes, created a network for teacher quality;
- Mentor Training Program – Higher education institutions and state partners have instituted a training program that encourages veteran teachers to become mentors to colleagues in their districts;
- Coming Home – A grant funded program to bring more teaching candidates from diverse and minority backgrounds to Vermont’s higher education and teacher preparation programs.

1996 Recommendation #31: Restructure Technical Education

VEPC recommended that inconsistencies in the quality of instruction at Vermont's technical centers be addressed. Also, VEPC recommended an integrated statewide design and mission with long-term vision that prepares entry-level employees and provides for the development of the workforce. The Council endorsed the need for radical change and a pilot program to develop and test new system designs for technical centers.

Update:

Department of Education

There are 22 secondary education sites offering career and technical education programs in Vermont. Great strides have been made in the direction of technical education in Vermont. Act 138 (1998), An Act Relating to Vermont's Technical Education System, clarified the purpose of career and technical education, restructured funding for technical education and provided funding for several pilot sites to explore new approaches for technical education governance, organization and programming.

Innovation in Vermont career and technical education since Act 138 has not been limited to the pilot sites. Most career and technical centers have developed new approaches to programming or initiated new programs that better reflect the regional needs of the workforce. The adoption of higher academic standards and industry skill standards has become a system-wide effort. Business and post-secondary partnerships have increased significantly and all pilot sites have implemented new governance systems. The Vermont State Colleges, especially Community College of Vermont and the Vermont Technical College have co-located at many of the technical centers, providing transition into post-secondary classes and programs.

Since Act 138, further legislation passed to allow regions to establish committees to plan the formation of a regional technical center school district with an alternative and more broadly based governance structure. The act also spelled out the process that must be followed before the alternative structure can be put in place. Funding for career and technical training has included additional funding for pilot sites and funding for feasibility work on regional workforce development centers or technical academies. The technical centers were awarded and will receive \$610,396 from the Workforce Education and Training Fund between January 1999 and January 2003. There has also been funding for innovative programs at technical centers that respond to emerging technologies and provide high-skill, high-wage employment (\$200,000 FY03, \$450,000 FY02) and the purchase of educational program equipment (\$400,000 FY02).

1996 Recommendation #32: Support of Higher Education

VEPC recommended an increase in state support for higher education. The Council also recommended that a "compact" be developed by the state's higher education leaders, the Governor, and the Legislature, defining the goals to be achieved through increased state funding. The Council further recommended that a long-term capital plan be developed for state-sponsored institutions to help direct the state's contribution to capital expenditures.

Update:

A *Compact with the State of Vermont* was signed in 1999 by the Governor, Speaker of the House, President Pro Tem of the Senate, Chancellor of the VSC, President of the Association of Vermont Independent Colleges, President of UVM, and President of VSAC. The Compact set out goals regarding a commitment to funding, access to education and training, student goals, and institutional goals.

Vermont State Colleges

Higher education plays a critical role in the state's economy and in the development of the workforce. Not only does higher education

provide 4.3% of the gross state product, but also preparation of the workforce for the knowledge-based economy depends on the quality and accessibility of higher education.

State funding for public higher education in Vermont ranked 41st in FY1981 and in FY2001 ranked 49th when measured as appropriations per \$1000 of personal income. The state has had the largest decline in of the 50 states in higher education funding over that time. Vermont ranks last for percentage of higher education expenditures as a percentage of total expenditures (3.2%). One impact is that 2/3 of the budget for the Vermont State College system comes from students and the other third from state appropriations. The number of Vermonters attending the state college system full-time has increased almost 35% between FY1990 and FY2002. The combination of decreasing state support and increasing Vermonter attendance means that the state is appropriating 5.1% less per Vermonter in the state college system. Another result is that from FY93 to FY01, the average total debt accumulated by Vermont full-time college seniors who are VSAC grant recipients grew from \$9,433 to \$17,617.

Higher education in Vermont (VSC, UVM and VSAC) received a 7% increase in FY2002 and 3.25% increase in FY2003.

1996 Recommendation #33: Determine Future Workforce Needs

VEPC recommended an ongoing effort to update industry and occupation projections, workforce inventories, and resources for training. The Council also recommended that efforts be made to mesh these projections with industries being targeted by economic development entities. The Council also recommended that the HRIC, through the Workforce Investment Boards (WIBs) develop ideas on the most effective ways to utilize resources for workforce training in each region of the state.

Update:

Department of Employment and Training

In addition to administering the Unemployment Insurance Program, numerous job training programs, the Registered Apprenticeship

Program, and the Employment Service's Labor Exchange, DET continues to develop and provide the most up-to-date labor market information, including industry and occupational projections that help state and federal administrators, employers, economists, workforce development planners, and job seekers make informed decisions related to economic and workforce planning. In addition, DET will continue to explore new ways to present information in user-friendly formats to ensure the widest possible audience is reached.

A significant on-going activity at the Department of Employment and Training is the effort to integrate and coordinate services to employers and job seekers through its statewide network of 12 One-Stop Career Resource Centers. DET has consolidated six federal and state employment and training programs under one administrative structure, as required by the federal Workforce Investment Act. In addition, DET has established formal agreements with a number of partner agencies and institutions in order to expand its menu of services to customers through the one-stop system. In response to customer needs, each Center has a self-help resource room with computers, Internet access, telephones, faxes, and other resources that enable customers to access DET services and information and conduct an effective job search locally, regionally or nationally, with little or no staff help. A new web-based operating system is currently being developed that will significantly enhance access to information and services for jobseeker and employer customers and increase staff productivity.

The *School-to-Work Initiative* was the result of a five-year federal grant, the funds for which have now been exhausted. However, the initiative has embedded three key principles—work-based learning, applied learning, and career exploration—into the education and the workforce investment systems. For example, DET has become closely connected to the secondary school system statewide by providing teacher training and student workshops related to developing career decision-making skills. In addition, the local WIBs have taken significant interest in school-to-work activities and

supported a number of initiatives statewide. As a result of the school-to-work initiative, there are now over fifty positions and more than \$2 million annually in local schools and school budgets supporting activities that operationalize those principles.

Human Resources Investment Council

The Human Resource Investment Council (HRIC) has established 12 regional Workforce Investment Boards (WIBs). One of their goals is to complete comprehensive Regional Workforce Development Plans. The WIB members - educators, businesses, economic development groups, chambers of commerce and local agencies - have conducted extensive surveys and one-on-one interviews with hundreds of employers across the State. Each region has identified key economic sectors that provide, or have the potential to provide, significant economic benefits and employment opportunities. The workforce education and training needs of each of these sectors has been evaluated and a set of recommendations has been developed to guide the workforce development activities and investments of schools, colleges, agencies, and employers.

In 2002, these regional plans will be consolidated, in partnership with the Department of Economic Development, into a single, statewide workforce development plan that will guide the allocation of state and federal resources and form the basis for long range workforce policy development. The Regional Workforce Development Plans may be viewed on the Web at www.det.state.vt.us/~hric

1996 Recommendation #34: Education Funding and Budgeting

VEPC recommended that the Board and Department of Education, with the school and business community, review the existing statute governing school budgets and propose changes that would allow for a longer fiscal planning cycle.

Update:

See Update to Recommendation #35 below.

1996 Recommendation #35: Cost & Quality Commission Follow-Up

VEPC supported the work of the Cost and Quality Commission and recommended implementation of several efficiency measures in the Commission's report, including the possible consolidation of outlying school districts.

Update: (Recommendations # 34 and 35)

Department of Education

Since these recommendations were made in 1996, the legislature chose a different tack by enacting significant legislation influencing the way schools operate, not the least of which was Act 60 of 1997. This act created a new school district funding system and put into place a school quality program, including student assessments, also dramatically different from the public school approval process that existed at the time. It also required the State Board of Education to adopt a strategic education plan by July 1, 1998 which must be readopted every five years.

State government operates on an annual budget cycle and through this process funds over seventy percent of local school district costs. Given this, it would be difficult for school districts to budget on a different cycle. Act 60 also requires school districts to create annual action plans to improve student performance. However, nothing in the law prevents them from engaging in longer-term strategic planning. Other state legislation was enacted that has significant impacts on technical education, special education, and creates public school choice for high school students. But, perhaps the most dramatic piece of legislation that will demand the total attention of state and local school officials for many years was enacted by the federal government, the No Child Left Behind Act of 2001. This is a very complicated and comprehensive piece of legislation, which overrides much of the state's education program. Perhaps the most profound requirement in this law is that all students must meet our educational standards by the school year 2013-2014. How it will be accomplished and how much it will cost is not fully understood at this time.

Clearly, the five points quoted from the Cost and Quality Commission report are not unique to that report and generally come up in discussions at the various levels when education policy is being made. Bills have been introduced to consolidate outlying school districts, but the legislation has not passed. The State Board of Education does have the authority to reconstitute supervisory unions, that is, it could combine districts into fewer unions. Without reducing the number of districts, however, such an exercise does not appear to be beneficial. Bills proposing changes to Vermont's Equal Educational Opportunity Act have been initiated during the past two legislative sessions, although none has yet been enacted by the General Assembly.

1996 Recommendation #36: HRIC Accountability Indicators
VEPC supported the development, by the HRIC, of accountability indicators for workforce training programs.

Update:

Human Resources Investment Council

To date, the HRIC has utilized the accountability indicators required under a number of State and Federal programs to measure program performance. In FY 2000 the Department of Employment and Training, Department of Education Adult Education Programs met and exceeded their Federal performance targets, qualifying the State for significant performance bonuses that have been used to upgrade customer information systems at DET and data reporting systems in DOE's adult education programs.

As part of the strategic planning process the HRIC will undertake in 2002, the need for additional accountability indicators will be evaluated.

1996 Recommendation # 37: VHEC Economic Partnership
VEPC supported implementation of a partnership between the Vermont Higher Education Council and the Agency of Commerce.

Update:

The strategies and goals of the proposed partnership were subsumed into the work being accomplished by the Vermont Workforce Education and Training Consortium. The consortium includes the Department of Employment and Training, Department of Education, Agency of Commerce and Community Development, the Vermont State Colleges, VSAC, the Division of Vocational Rehabilitation, UVM, the SBDC, and the HRIC and is co-chaired by the VSC Chancellor and the DET Commissioner. The partnership is active and focusing on the continuous improvement of programs and services, coordinating efforts to enhance workforce education and training service delivery, developing statewide distance learning strategies to support workforce education and training, establishing an on-going process to utilize labor market analysis, developing tracking systems for workforce education and training efforts, creating outcome-based approaches to all postsecondary credit programs, and improving communication and marketing efforts regarding workforce education and training.

Policy Area Five

An Exceptional Telecommunications Network

INTRODUCTION

The new economy – one that is knowledge-based and technology driven – brings with it highly paid, highly skilled jobs with minimal environmental impact, consistent with Vermont’s values and traditions. Vermont’s competitiveness in the new economy will depend on the development of high-tech industries in Vermont and the utilization of high-tech innovations by new and existing businesses. Key to Vermont’s successful participation in the new economy is the availability of affordable high-speed telecommunications. As bridges and highways were the foundation to the traditional economy, telecommunications infrastructure is the gateway to the new economy. All of Vermont must have access to reasonably priced, high-speed telecommunications services. And, Vermont must be on the cutting edge of design and implementation of new telecommunications technologies.

The Vermont “Brand Study” conducted by the O’Neal group found that 27% (ranking 5th of 12 issues) of a cross-section of Vermont businesses considers the communications infrastructure to be a “disadvantage to doing business in Vermont.” The ranking rose from 5th to 4th among companies with 100 or less employees and 1st among high-tech companies. The same businesses ranked “improving the communications infrastructure” third among seven of the “Most important issues for Vermont Businesses.”

Telecommunications is of such high importance because of the impact it can have on the future growth and development of all four major sectors of Vermont’s economy: manufacturing, agriculture, education and health care, and hospitality and tourism. The impact on

the nurturing of a high technology economy is fairly obvious. But an affordable telecommunications network will increase efficiencies and productivity in manufacturing and is important to agriculture. To compete in the global marketplace, every Vermonter must have access to an education system that prepares them to be both creative and innovative and able to utilize technology. Workforce development strategies such as distance learning and work-at-home opportunities rely on the availability of an affordable telecommunications infrastructure. The applications for telemedicine have great potential for Vermont. New methods are constantly being implemented to utilize telecommunications to increase travel and tourism to Vermont.

Development of the new economy is an evolution compatible with Vermont’s quality of life. If high-tech entrepreneurs and work-at-home and other small businesses are nurtured, the new, connected economy can evolve in ways that preserve and strengthen Vermont’s renowned quality of life, village centers, rural character and working landscape.

The Vermont Telecomm Advancement Center conducted 22 focus groups in 17 communities around the state over a three-year period. Their findings, whether perception or reality, included:

- There is a lack of adequate coverage for cell phone use;
- Participants were pleased with their standard telephone service;
- By and large, communications customers (voice, data, cable, cellular/wireless) are concerned more with customer service than with line speed. However, a more in-depth examination of their interpretation of customer service finds that they mean having connections available with the convenience (i.e. speed, cost) that they want;
- There is concern that Vermont will not have widely available broadband capability (that is, anything beyond simple voice capability). This will effect economic development;
- There is a lack of understanding of what the various levels of technologies are, what they can do, and what the costs are;

- There is a perception in the business community that DSL is the way to go but they cannot get it;
- There is a disparity between what is perceived as the newest and best technology (ISDN, DSL, Digital, two-way cable) and when it should be or can be available across the state.

Through the hearings held by VEPC on this issue and material submitted to the Council, the following became evident:

Regarding wire line infrastructure, applications and services:

- There is variance between the perception of available infrastructure and services and actual availability;
- There is a lack of understanding of what applications are available with current infrastructure and what those applications can mean to business productivity;
- Businesses may be too frequently dismissing upgraded or enhanced telecommunications because of costs without fully analyzing the benefits that applications of telecommunications technology can bring to productivity and revenue;
- There is a disparity in the availability of affordable advanced telecommunications services, especially in rural areas;
- There is a lag in government response in this sector in regards to rules and regulations, changes in state and local laws, including tax policy and the development of incentives.

Regarding wireless technology:

- Vermont's mountainous regions and demographics add to the difficulty of deployment and justification of a business case for deployment;
- Current state and local land use regulations and taxation create economic barriers to providing affordable wireless service in the state.

Regarding demand versus supply:

- Many businesses perceive that there are telecommunications services that they need and cannot get in Vermont. While this

may not always be true, the state cannot allow this perception to persist if it is to retain a competitive edge in the new economy;

- Strategies need to be developed to avoid a "digital divide" or "rural penalty" by addressing the last mile and middle mile infrastructure issues;
- Vermont needs to ensure a solid redundancy in its telecommunications backbone and capacity to carry data in and out of the state.

OVERARCHING POLICY OBJECTIVES:

The Council has kept the following overall objectives in mind while developing recommendations regarding telecommunications:

- Expand the general knowledge in the business community as to what applications may enhance their business operations and the services available in their area to support these applications. This is related to, but distinct from, telecommunications infrastructure. Applications are the ways that businesses can use telecommunications services. Infrastructure is what delivers the services making applications available. The objective is to unlock latent demand and help businesses identify applications that can be applied to business efficiency and productivity;
- Help the business community effectively evaluate cost (lost opportunity) and benefits (increased productivity and sales) of services and infrastructure that is currently available to them or could be available to them in relation to their actual needs;
- Continue to increase the choices for business telecommunications customers in services and service providers, especially for high-speed data services. Increase the competitiveness of pricing for a range of data services that offer differentiated levels of service and deliver value to the widest range of business customers. Data services have been increasing in diversity since 1996. It has become apparent that the availability of high-speed data services throughout Vermont is less of an issue than price and the availability of a range of services that can offer high value to a wide range of users. This means that the issue in Vermont is not

availability, it is price; and price is not only an issue of location, it is an issue of volume and competition;

- Ensure affordability, capacity, and competition through policies that encourage the presence of more back haul providers and service providers while ensuring a revenue stream for each that allows for continued availability - a balance of competition and market share;
- Flattening Vermont is not an option, so for wireless service, the objective is the removal of disincentives to development, such as the effects of taxation, and the efficient and cost effective identification and permitting of antenna sites;
- Mitigate, where possible, any negative effects of Vermont's smaller-size market on pricing and infrastructure development through strategies such as demand aggregation and the development of high capacity areas or sites;
- Update and clarify rules and regulations and develop incentives to encourage the commercial use of emerging telecommunications applications;
- Development of a policy and implementation of a plan to establish state government and public institutions as major purchasers of telecommunications services, a provider of telecommunications infrastructure and a leader and model in the use of broadband applications.

2002 VEPC RECOMMENDATIONS

Vermont Telecommunications Plan

- *Ensure private sector input in the Vermont Telecommunications Plan update.*

The Council recommends that VEPC, the Department of Economic Development and others in the economic development community assist the DPS in tapping into a full range of business voices on telecommunications issues as they develop the next Vermont Telecommunications Plan.

Coordination of Telecommunications Program Implementation

- *Recognize the importance of telecommunications issues and designate a senior person or persons to coordinate state telecommunications policy and oversee the implementation of telecommunications programs and initiatives, including government use of information technology.*

The Council heard testimony and received material regarding many groups, agencies and committees involved in telecommunications projects. The DPS is making efforts to incorporate a broad base of issues and opinions in their telecommunications strategy and planning efforts. But the implementation of the various telecommunications strategies remains disparate and uncoordinated. There is clearly a need for prioritization of issues and coordination of actions and resources. The various departments and organizations involved either do not have the resources to lead on this issue or are regulatory in nature and therefore are not seen as the proper lead agency. Steps taken by the Departments of Economic Development and Public Service to coordinate their efforts and the actions of others are very encouraging. But unless someone is designated to coordinate planning, prioritization, implementation, resources of the various agencies and organizations, requests for state and federal resources, and private sector interests, Vermont will fall behind in the development of necessary telecommunications policies and actions.

Therefore, the Council recommends that the next governor recognize the importance of this issue and designate a senior person or persons to coordinate state telecommunications policy and oversee the implementation of telecommunications programs and initiatives, including government use of information technology. The jobs of managing state government's use of information technology and directing telecommunications policies are tasks of a differing nature that require two sets of skills. The former involves finding the best way of applying technology to the specific tasks and needs of government and its clients. The latter involves dealing with the

telecommunications industry as a whole, crafting policies, programs, initiatives, and regulations that support and encourage actions by service providers that are in the best interest of the state as whole. To the extent that there is some overlap, the state as a user should be directed to act in a manner consistent with the state's policy goals.

The Council also recommends that the governor designate and the legislature fund, a lead organization to implement action steps on telecommunications and information technology issues. The organization should represent all parties involved in telecommunications issues and be charged to develop a comprehensive work plan, including benchmarking successful efforts in other states, and coordinating efforts to implement the state's telecommunications action steps.

Demand Aggregation

- ***Explore the role of the state as part of a public/private aggregate purchasing telecommunications services;***
- ***Change state policy of building closed networks for state government, such as telecommunications infrastructure for public safety and education, and make the infrastructure available to expand deployment of broadband to hard-to-serve areas of the state.***

The Council heard testimony about and supports community aggregation efforts in Vermont as a method to overcome the state's inherent demographic limitations and bring broadband services to rural areas. Community aggregation is the joining together of local government, health care, major and small businesses, non-profits and other customers in a region to form a group that bargains for telecommunications services at negotiated rates. The Vermont Council on Rural Development (VCRD) has established a Telecommunication Committee that has initiated an aggregation project in the Northeast Kingdom, NEKConnect, and through a broad partnership has investigated opportunities for statewide aggregation efforts. The VCRD Telecom Committee has released a booklet

entitled *Wiring Rural Vermont: A Tool Kit for Community Telecommunications Planning* and is currently assessing broadband market demand in the Kingdom, documenting areas of need and initiating community-based aggregation strategies.

With its partners, VCRD is currently involved in discussions with the State of Vermont on the potential leveraging role of state purchasing of broadband services for rural deployment at competitive rates. State and federal participants at the Governor's 2002 Summit on Rural Economic Development recommended immediate action by the Agency of Administration so that, "the State of Vermont should explore its role as part of a public/private aggregate purchasing telecommunications services."

By allowing businesses in targeted rural areas to buy through the state telecom contract for rates equivalent to those for particular services provided to the state, the public interest in rural deployment can be furthered resulting in business growth and hence taxable income expansion. In effect, the state can serve as the cornerstone that leverages aggregate rates to previously disaggregated areas of the state which, because of the weakness of the rural market, have not otherwise drawn in equivalent rates and services. The VCRD initiative is based on aggregation projects that have succeeded in other states and models of state leadership from Canada and Europe. The Vermont Economic Progress Council recommends support for this initiative and recommends that the state explore its role as part of a public/private aggregate for purchasing telecommunications services.

The Council also recommends a change in the state policy of building closed networks for state government, such as telecommunications infrastructure for public safety and education, and make the infrastructure available to expand deployment of broadband to hard-to-serve areas of the state.

An Online Government

- ***Immediately create a single portal to all government services that incorporates already existing online service efforts, the availability of credit card transactions for government services, discounted fees for online transactions, interactive on-line applications for services and permits, and work-at-home opportunities for state workers.***

Broadband availability can improve the delivery of government services at both the state and local levels. Vermont's state and local governments should strive to become the model for the use of information technology and state-of-the-art telecommunications to be more efficient and effective. Currently, Vermont ranks 48th out of 50 states in the use of technology by the state government and the state spends less than 2% on technology advances.

The Council recommends the immediate creation of a single point of access (portal) to all government services that incorporates already existing online service efforts, the availability of credit card transactions for government services, discounted fees for online transactions, interactive on-line applications for services and permits, and work-at-home opportunities for state workers. For example, employment and training information, tax filing, motor vehicle registration, professional license applications, corporate filings, permit applications and similar functions of government, including those involving a payment, should be conducted over the Internet to the fullest extent possible. Similar online services, such as permit applications, zoning variance applications, and title searches can be provided by Vermont's municipalities. Taking connectivity to a new level in the government-consumer relationship can help strengthen communities, improve the public perception of government, improve local-state links and make all levels of government more efficient and effective.

In order for local and regional government entities to utilize more online services and for more individuals to utilize online government

transactions, the state needs extensive broadband service. Further utilization of broadband by state and local governments and provision of these online services could act as the catalyst for the aggregation concepts mentioned above.

As recommended above, the next governor should designate a lead person or persons in the administration to coordinate telecommunications and information technology issues and policy and provide resources to an organization to coordinate efforts to implement the state's telecommunications action steps. The Council recommends that the governor and legislature ensure that one goal of this effort be the rapid implementation of efforts by state, regional and local governments to utilize online services and educate the public regarding use of those services.

Work-at-Home Opportunities

- ***Support the work-at-home concept and initiate a work-at-home pilot project serving predominantly the rural areas of Vermont by aggressively identifying those businesses and organizations that could benefit from work-at-home situations.***

The Council urges the governor and legislature to expand on the success of the Putnam Investment experience in creating work-at-home opportunities. The true career work-at-home concept is beginning to grow. Combined with on-line training at home, it represents a powerful way to create jobs and offer opportunities to citizens who are underemployed. The Council therefore recommends that the state support the work-at-home concept and initiate a work-at-home pilot project serving predominantly the rural areas of Vermont by aggressively identifying those businesses and organizations who could benefit from work-at-home situations and a concerted effort to reach out to them and provide assistance in making it a reality through direct consultation. The state should also consider initiating a project within the Vermont state government to deploy some employees into work-at-home situations.

Wired Industrial Parks and Digital Downtowns

- ***Identify, develop, and promote locations throughout Vermont that are ready to serve businesses with a need for a high level of telecommunications service in the form of technology incubators, “wired” industrial or business parks, or “digital downtowns.”***

The Council also supports identifying, developing, and promoting locations throughout Vermont that are ready to serve businesses with a need for a high level of telecommunications service in the form of technology incubators, “wired” industrial or business parks, or “digital downtowns.” The new pre-permitting agency discussed in Policy Area 3, if created, or the Department of Economic Development should work with the RDCs and appropriate agencies and organizations to inventory existing locations and utilize them in marketing and recruitment efforts and explore what incentives, programs or other policy changes are necessary for the development of further sites.

Tax and Fiscal Policies

- ***Develop a more aggressive tax incentive policy for providers of broadband services;***
- ***Require an analysis of the fiscal impact and economic benefits of eliminating, reducing or stabilizing telecommunications taxation to stimulate investment in telecommunications infrastructure.***

The Council urges that existing policies toward opening the market to competition and minimizing the impact of regulation be continued and accelerated. This should include a revision of the tax code to recognize convergence of the telecommunications industry. The tax structure currently differs for cable providers and telecommunications providers, but cable companies are providing telecommunications services.

Fiscal implications of changes in tax policy must be considered within the context of the total state budget, but telecommunications investments result in increased economic activity. Therefore, reducing taxes to stimulate investment will result in more revenue generation. The taxes imposed on end users of telecommunications services or companies that deploy telecommunications infrastructure include the telecommunications tax, a sales and use tax on equipment for deploying broadband services, a telephone personal property tax, and property taxes on cable company broadband service investments. The Council recommends that a much more aggressive tax incentive policy be developed for providers of broadband services. The incentives should induce companies to provide services in rural areas and could be based on investments in building the last mile infrastructure such as switching equipment, lines, modems, engineering, and other costs. The Council recommends that the legislature require an analysis of the fiscal impact and economic benefits of eliminating, reducing or stabilizing these taxes to stimulate investment in telecommunications infrastructure.

Changes to the Economic Advancement Tax Incentive program during the 2002 session included a small incentive for telecommunications infrastructure investments in existing structures. The analysis should also examine providing targeted incentives to stimulate infrastructure upgrades.

Wireless Infrastructure

- ***Immediately utilize state land for tower siting where appropriate and explore making state highways and other state-owned rights-of-way available for broadband deployment.***
- ***Form a private-sector led working group of broadcasters and service providers to establish the most efficient and effective locations for tower siting and equipment co-location.***

The advent of digital cell communications necessitates more towers than the old analog system because while digital is clearer, the signal does not travel as far, so cells have to be closer together. As anyone driving the roads of Vermont knows, and as the Council heard many

times in testimony, Vermont is already clearly behind in the provision of adequate cell sites to ensure statewide coverage for digital communications devices.

The Council endorses the recommendations made in the 2000 Vermont Telecommunications Plan and specifically recommends the immediate utilization of state land for tower siting where appropriate. The state should also explore making state highways and other state-owned rights-of-way available for broadband deployment.

The Council further recommends that a private-sector led working group of broadcasters and service providers be formed to establish the most efficient and effective locations for tower siting and equipment co-location, including alternative sites such as silos and steeples. The goal is to identify the key sites that can handle maximum high capacity service and potentially combine provider resources when negotiating with landowners.

Technical Assistance, Education, and Training

- ***Tailor business service programs to support businesses in using telecommunications to integrate with customers, suppliers, strategic partners, electronic marketplaces, and information resources.***

Economic development and small business service providers such as VTAC, VITC, SBDC, VMEC, and others should tailor their programs to support businesses in using telecommunications to integrate with customers, suppliers, strategic partners, electronic marketplaces, and strategic information resources. In Policy Area 3, the Council recommends funding increases for many of these economic development partners to assist with this program focus.

Vermont Telecommunications Advancement Center

- ***Ensure the continuation of VTAC's mission.***

The Council applauds the creation and operation of a telecommunications resource center as recommended in an earlier report. While this objective was furthered through the creation of the Vermont Telecommunications Applications Center (now the Vermont Telecommunications Advancement Center), sustaining and continuing the mission of helping business users understand and apply telecommunications should continue to be a priority. The Council therefore recommends state support for VTAC and its mission. However, likely efficiencies and perception of redundancy to the customer should be examined as potential reasons for considering the merger of the Vermont Telecommunications Advancement Center and the Vermont Information Technology Center.

Benchmarks for Telecommunications Services

Continue to benchmark telecommunications services.

The Council recommends continued benchmarking of telecommunications services, especially voice telephony, data services, and mobile services (e.g. cellular, PCS). The following table summarizes recommendations for each of these services in each of the four service categories:

	Voice Telephone	Data Services	Mobile Services
Service quality	The PSB has adopted generic service quality standards in docket 5903 and stricter standards for Verizon as part of its alternative regulation plan. Rigorous service quality standards should be a part of future alternative regulation plans and the PSB should re-examine the adequacy of its generic standards.	The PSB should consider standards if competition fails to deliver services with quality-of-service guarantees to those customers that require them.	The PSB should monitor the need for service quality standards in this area.
Service availability	Service is universally available	A diverse range of high-speed data services should be available in all Vermont communities. Any specific indicator of service availability must be temporary due to changes in technology.	Widespread service availability is desirable, but currently difficult to measure at a small scale unless the state requires reporting by service providers or invests in the capability to measure. An approximate indicator is the number of counties having antennas providing service for three or more wireless carriers.
Price	A particular goal is difficult to specify, as they are greatly influenced by costs, which may change over time. However, the DPS should monitor prices in these areas and the state should seek to achieve prices comparable to other locations in the region and country.		
Adoption/penetration	An appropriate indicator is the percentage of households with telephone service.	Appropriate indicators at this time are the percentage of households with internet connections, the percentage of the population who are internet users, and the percentage of households and businesses that have broadband.	An appropriate indicator at this time would be the percentage of households with a wireless phone.

1996 VEPC RECOMMENDATIONS AND UPDATES

1996 Recommendation #38: Broad-Based Telecommunications Planning

VEPC recommended the creation of a group or structure to lead broad-based statewide telecommunications planning and implementation of recommendations in the Vermont Telecommunications Plan. Also recommended the creation of a resource center and passage of computer crime legislation.

Update:

Department of Public Service

The Department of Public Service (DPS) is taking steps in the current process of revising the 2000 Vermont Telecommunications Plan to implement the major thrust of this recommendation. The Department's objective is to make the state telecommunications planning process more broadly based. To this end, the Department's currently proposed process includes an extended input phase which will include public hearings, interviews with service providers and state agencies, "sector group meetings" in areas such as business and economic development, working groups on specific topics, surveys, and an advisory panel.

The format of the plan will also implement past VEPC recommendations related to prioritization, action orientation, and follow-through. The DPS anticipates replacing the current "recommendations" format with an organized series of "policies" (to provide guidance in making decisions on an ongoing basis) and "action plans" (to outline specific courses of future activity). By increasing the level of partnership in the development of the plan, the DPS hopes to increase the buy-in to the product. This will create a better environment for identifying organizations responsible for following through on planned actions, when that organization is not the DPS.

Department of Economic Development

The Department of Economic Development has worked closely with the Department of Public Service and others to take steps to implement some of the recommendations from the Telecommunications Plan. Of particular interest is a public database of telecommunications service availability. The Internet-based database is available to the public to check on what services are available in their region and from which providers.

Vermont Telecommunications Advancement Center

The Vermont Telecommunications Advancement Center (VTAC) was formed in 1998, in part as a resource center for businesses regarding telecommunications issues. It has conducted over 40 focus groups of small business owners (approximately 440 persons) in 27 towns throughout the state, devoted 10 VIT programs to telecommunications training (approximately 900 people attended), maintains a website (www.vtac.org) that attracts an average of 30,000 successful hits per month, has provided training and testimony for the legislature and participated extensively in the technology symposia at the Vermont Business Expo.

Act 35 of 1999 put a computer crimes law on the books in Vermont.

1996 Recommendation # 39: Follow-up on the 1996 Vermont Telecommunications Plan Recommendations

VEPC recommended that the state move forward with the recommendations of the Vermont Telecommunications Plan. In particular, VEPC recommended immediate attention to the validation of electronic digital signature systems.

Update:

Department of Public Service

The Department of Public Service intends to create a comprehensive progress report on the recommendations of the 2000 Vermont Telecommunications Plan as part of the current plan revision, but

because of the relatively short time since the adoption of the last plan, this step has not yet been completed. There have been, however, some notable areas of activity.

- In a series of rate cases, the business rates of incumbent local telephone companies have been reduced, in some cases significantly. For example, in 2000, the PSB reduced the basic rate for most Bell Atlantic (now Verizon) business customers from \$41.00/month to \$27.00/month, in 2001 it reduced the business rate of Northland Telephone from a range of \$24.85-\$30.85/month to \$23.65/month, and in 2002 it reduced the business base rate of Northfield Telephone from \$27.00/month to \$23.65/month.
- Vermont's telecommunications industry successfully weathered the Y2K storm.
- The number and diversity of competitive providers of advanced telecommunications services in Vermont has grown, and not merely in Chittenden County. In addition to Vermont's two major statewide network service providers, Verizon and Adelphia Business Solutions, other competitive carriers like SoVerNet, Lightship, and CTC serve business customers. Companies like Teljet and NEON Communications are also building fiber optic networks that could provide the facilities to serve expanded competition.
- Through the franchise renewal of Vermont's major cable company, Adelphia, the state obtained commitments to significant upgrades to the system permitting cable modem service, and to build-outs in unserved areas containing a low 13.6 homes per mile. The formula used with Adelphia for calculating the build-out requirement for the first time required businesses, as well as residences to be counted.
- Although much work remains to be done with regard to wireless service, Vermont now has its first PCS provider, with more to follow.
- Act 35 of 1999 put a computer crimes law on the books in Vermont. Vermont has not yet passed a law specifically

recognizing digital signatures. However, in 2000, the federal Electronic Signatures in Global and National Commerce Act provided that no electronic signature in an interstate or foreign transaction could be denied legal effect solely because it was an electronic signature. The Department will consider the impact of this legislation, and what it means for the necessity of comparable state law.

- The PSB implemented thousands-block pooling of telephone numbers in Vermont, a step that will extend the life of the 802 area code, saving business and others the potential expense and disruption of an area code split in the near future.

The DPS is currently going through a process to scope out and identify issues as part of the *Vermont Telecommunications Plan* revision.

Broadband Financing Study

During the 2002 legislative session, section 27 of Act 144 (H.771) required VEDA, DED, and DPS to study whether loan and grant assistance programs are needed to accelerate the availability of high-speed telecommunications services and attract and support high-technology businesses. The report is due January 15, 2003.

1996 Recommendation # 40: Guidelines for the Siting of Telecommunications Towers

VEPC withheld making a recommendation until the Tower Siting Advisory Committee released its findings.

Update:

Department of Public Service

At this point in time a number of sets of guidelines are available for wireless siting. These include model zoning bylaws available from regional planning commissions, the TSAC guidelines for locating facilities on state property, and the guidelines implicit in the Environmental Board's revised Act 250 application form for wireless

developments. While further work on these and other guidelines may be in order, guidelines alone are unlikely to produce significant progress on the development of wireless services in Vermont. The 2000 Vermont Telecommunications Plan recommends that Vermont should promote the development of wireless mobile telecommunications infrastructure without creating undue adverse environmental or health impacts, that Vermont should continue to make better use of state lands for siting tower structures, and that Vermont should continue to facilitate and encourage the use of existing facilities for siting antennas. How to implement these recommendations are the subject of ongoing discussion within and between various agencies, at the staff and cabinet levels.

Agency of Transportation

During the 2002 legislative session, Act 141 (H.764) included a provision (section 40) requiring the Vermont Agency of Transportation, in conjunction with other groups, to study and present a plan to the legislature for the potential use of public highway right-of-way and structures for wireless communications services. The report is due January 15, 2003.

1996 Recommendation # 41: Creating Outcome Indicators and Benchmarks for Telecommunications Service

VEPC recommended that benchmarks and indicators be developed to determine the levels of service and telecommunications standards Vermont would like to attain and help direct resources to meet those standards.

Department of Public Service

The Department of Public Service has adopted four categories of telecommunications benchmarks for three service categories. The benchmarks are for service quality, service availability, price, adoption or penetration. The service categories are voice telephony, data services and mobile services. Please see the telecommunications indicators in the Economic Indicator section of this report for current benchmarks and goals.

Policy Area Six

A Fair, Predictable, and Competitive Energy Policy

INTRODUCTION

Energy costs remain a major concern for all Vermonters and a substantial factor in the cost of doing business. Vermont's economic base relies heavily on electric power for lighting, cooling, and electronic and mechanical equipment.

As shown in the table below, in which we selected a geographical range of states for comparison, listed in the order of total per kilowatt revenue (i.e. user cost), Vermont's total average electric power rates are now among the highest in New England, second only to Maine. Vermont ranks fourth among all U.S. states in overall average rate after Hawaii, California and Maine. Vermont has the highest industrial rate in New England and the second highest industrial/commercial average. Even more alarming is that between 1995 and 2002, the total average rates, industrial rates and commercial rates decreased in Vermont's closest competitors for businesses – New Hampshire and New York – while they increased in Vermont. As a result, Vermont experiences a competitive disadvantage compared to our neighbors and other regions when it comes to retaining, expanding, or attracting new businesses.

Comparative 2002 average utility revenue (cents per KWH)

State	Indus- trial	Commercial	Residential	Total 2002
California	7.5	11.8	12.6	11.0
Vermont	7.9	10.9	12.3	10.6
New England	7.3	10.2	11.1	10.0
New	8.3	9.6	11.2	10.0
New York	4.4	11.0	12.9	9.9
Illinois	6.3	8.2	8.0	7.5
US Average	4.73	7.62	8.14	6.96
North	4.5	6.5	8.0	6.6
New Mexico	4.2	6.9	7.7	6.3
Kansas	4.5	6.0	7.1	6.0
Mississippi	4.3	6.7	6.8	6.0
Louisiana	3.9	6.5	6.6	5.5

Source: US Department of Energy

2002 VEPC RECOMMENDATIONS

Energy Costs

- *Ensure energy supply choice and create an environment of competition.*

Vermont businesses operate in a highly competitive national marketplace. The success of Vermont manufacturing, and the prospects for future success depends on a reliable source of energy at predictable and nationally competitive prices. This will help to ensure our economic prosperity for present and future generations. A comprehensive energy policy should address issues such as supply diversity, flexibility, reliability, delivery, customer choice, energy efficiency, as well as appropriate consideration for environmental issues. Customers should be afforded the maximum degree of energy supply choice and options. An environment must be created where energy suppliers will aggressively compete for business in Vermont, and have a fair opportunity for profit.

Electric Rates

- *Developing and implementing plans that reduce Vermont's industrial retail electric rates to levels that are competitive with regional averages within five years.*

Electric rates in Vermont and the New England /New York region are significantly higher than the national average. While it is unrealistic to expect Vermont to be competitive in electric rates with the inexpensive power available in the coal belt, it is essential that Vermont legislative and regulatory leaders take steps to stimulate economic growth in Vermont by developing and implementing plans that reduce Vermont's industrial retail electric rates to levels that are competitive with regional averages within five years. The economic prosperity of the State is directly linked with achieving this goal. Since Vermont's power supply costs (the dominant component driving rates) are fixed by long-term contracts, operational efficiency, demand response and energy efficiency will likely be the prime

options for reducing costs. But the state must encourage and pursue these and all other viable options concurrently.

Renewable Energy

- *Ensure competitiveness of renewable energy options.*

The existing electric generation supply portfolio for Vermont utilities has the lowest CO2 emission rate in the nation. While improvement from this level of performance is possible, it is likely to be costly and technically difficult to achieve. Vermont's business community recognizes the need to ensure responsible use of energy throughout their businesses, including conserving energy, improving energy efficiency, and giving preference to renewable over nonrenewable energy sources when feasible and cost-effective. During the development cycle of renewable technologies, unit costs will tend to be higher than traditional mature generation technologies that operate in well-established infrastructures. This is due in part to factors such as scale, and location specific issues such as the intermittent nature of some energy sources (wind, sun, and water flow), and proximity to major electric load centers. Due to concerns for the cost competitiveness of renewable energy, policies should be established that ensure that as renewable power capacity expands, prices continue to fall, providing opportunities to achieve further economies of scale that initiate a new cycle of learning and development. Subsidies and incentives for development of renewable power should decline over time and the ultimate cost of renewable power should be influenced by open market factors.

In future long-range plan updates, VEPC will examine the energy issue more closely and make specific recommendations to the legislature.

1996 VEPC RECOMMENDATIONS AND UPDATES

1996 Recommendation # 42: Restructuring of the Electric Utility Industry

VEPC urged the Department of Public Service and utilities to provide adequate information to consumers about service choices. The Council also urged the legislature and the Public Service Board to keep pace with restructuring developments so that Vermont's restructuring efforts coincided with other states.

Update:

Department of Public Service

Since 1997 seventeen states have implemented retail choice. California was among the first states to open retail markets. Beginning in the summer of 2000 most California utilities and residents began experiencing extreme fluctuations in energy prices and critical supply shortages that precipitated rolling blackouts. This continued well into 2002 with serious consequences for the state. California has suspended retail choice as of October 2001 leaving 16 states with open retail markets and seven additional states have delayed their plans to restructure. A major factor in the failure of the California markets was the prohibition against bilateral power contracts and the mandate that all power be purchased in the spot market. Also, California's market rules were biased toward the supply side and it was quickly evident that an efficient market cannot exist without a fully integrated demand component.

A DPS analysis of Energy Information Administration data for the percent change in electric utility average revenue per kilowatt-hour for all sectors by state since inception of retail choice shows that states that have implemented retail choice had a greater percentage increase in rates than states whose markets remain regulated, 7.29% increase for retail choice states vs. 6.91% for non-retail choice states.

A number of factors dampened the initiative for proceeding with the restructuring in Vermont. The California energy crisis, the shortage of success stories in other states that had gone to retail choice and the lack of certainty in the regional wholesale markets all lead to adopting a wait and see attitude regarding retail choice.

1996 Recommendation #43: Energy Efficiency Programs

VEPC supported efforts by the DPS and PSB to work with utilities and users to develop cost-effective incentives to save energy.

Update:

Department of Public Service

Since the 1980's, Vermont's energy utilities had sought to meet this obligation by planning and delivering demand side management (DSM) programs, that is programs that help customers make investments that will increase the efficiency of their energy use.

In March of 2000, Vermont became the first state in the nation to have most electric energy efficiency programs administered by a statewide Energy Efficiency Utility (EEU). The concept for having a distinct entity responsible for energy efficiency in Vermont originated with the Department of Public Service and in June 1999 Governor Dean signed into law S. 137 authorizing the Public Service Board to change fundamentally the way energy efficiency services are delivered to utility consumers. The efficiency utility is funded through an energy efficiency charge on ratepayer bills. DPS research over the past ten years has shown that great efficiency savings are possible without reducing end use service, while actually improving quality of service and at costs less than the costs of the energy saved. Every three years the energy efficiency program is subject to review of the reported energy and capacity savings and cost-effectiveness of programs delivered by the efficiency utility and to ensure that any energy efficiency programs shall be reasonable and cost-effective and reflect current and projected market conditions, technological options, and environmental benefits.

Efficiency Vermont (EVT), the contractor serving as the state's energy efficiency utility, currently delivers a set of seven statewide core energy efficiency programs to all customers in the state. EVT is a not-for-profit, private corporation serving under contract to the PSB.

Since it began operations EVT has commenced full implementation of the core programs: Residential New Construction Program, Efficient Products Program, Residential Low Income Single-Family Program, Residential Low Income Multi-Family Program, Farm Program, Commercial Energy Opportunities Program (serving both new construction and equipment replacement/renovation/remodeling markets) and Customer Credit Program. Electric utilities remain responsible for aspects of energy efficiency relating to certain transmission and distribution constraints through a regulatory process called distributed utility planning.

Saved electricity from Efficiency Vermont's activities for year 2000 were 22,794 MWh and 37,565 MWh for year 2001. Had Vermont not saved this amount of electricity we would have had to acquire additional generation at a higher cost. This contribution is especially significant during peak demand periods and price spikes such as occurred during 2000 and 2001.

1996 Recommendation #44: Renewable Energy Technologies

VEPC recommended that the state provide strategic support for the commercialization of environmentally sound, renewable energy technologies.

Update:

Department of Public Service

An Energy Initiative, announced by the governor in the fall of 2001, sought to help Vermont meet its future electric energy needs by developing a clean, reliable and renewable energy infrastructure. Analysis of Vermont's particular needs and opportunities shows that renewable forms of energy, together with wise and efficient energy use do have the potential to meet, at a minimum, our future growth in demand.

Renewable fuel sources are those that can regenerate (such as biomass) or those that are not depleted by use (such as wind and

solar). Using these renewable resources sustainably means consuming them in a manner that does not place economic, social, and environmental burdens on future generations or limit their ability to meet their needs.

The governor's initiative called on citizens, businesses, utility companies and government to work together to meet Vermont's 1%-2% yearly growth in power demand through conservation, combined heat and power applications and renewable energy sources. Examples of the kind of projects the initiative seeks to encourage include commercial scale wind generation, small scale wind, solar and solar hot water small-scale, heat and power applications using methane gas recovered from farm manure, municipal waste treatment or landfill off-gas and district heating systems or industrial processes. The initiative does not seek to replace Vermont's current electric generation sources such as Vermont Yankee and Hydro Quebec, nor will it prevent continued use of these power sources or discourage other economically and environmentally appropriate generation. By pursuing the goal of meeting our load growth using these tools Vermont will gain experience and build industries in Vermont that may be able to help meet major supply needs in the future.

Policy Area Seven

A State Transportation System that Supports Economic Development

INTRODUCTION

Vermont's transportation system is crucial to economic development. If the perception or reality suggests, "you can't get there from here," this will negatively impact economic activity. Fortunately, for most modes of transportation, goods and people can move to points within and across the state, although the speed and degree of difficulty of this movement varies. However, as Vermonters increasingly compete in the global economy, we must find better ways to facilitate movement. To support economic development, our existing transportation system must first, be well maintained and second, be modified to meet changing and future needs. An essential modification required is the realization that our information technology infrastructure is, and will increasingly become, the "highway of the future". For many regions of Vermont, further development of major highway infrastructure is highly unlikely if not impossible. These regions will rely more and more on the development of communications infrastructure to provide new work-at-home jobs and to move what is increasingly becoming the product in demand: information.

2002 VEPC RECOMMENDATIONS

Link Transportation and Economic Development Policy

- ***The linkage of transportation and economic policy should be the goal in local, regional and state planning initiatives.***

The Council recommends that every effort be taken to link the development of transportation policy with economic development policy and both should be implemented considering our

environmental goals. The linkage of transportation and economic policy should be the goal in local, regional and state planning initiatives. For example, planning for multi-modal facilities should include connections to nearby jobs and ensure that employees have access and should keep in mind whether there is the potential and ability for business expansion nearby.

Transportation Priorities

- ***Preserve and maintain existing infrastructure and ensure that the infrastructure is put into place to support increasing the vitality of the economy and to encourage future economic growth.***

The Council believes the first priority for transportation funding should be the preservation and maintenance of existing infrastructure. But we also must ensure that the infrastructure is put into place to support increasing the vitality of the economy and to encourage future economic growth. The Council recommends that the legislature and the administration take steps to support the completion of major transportation projects that are vital to the economic vitality of the state such as the Circumferential Highway, Route 7 improvements, the Bennington Bypass, and the Alburg-Swanton Bridge. These steps should include aggressively pursuing federal resources, avoiding transfers from the transportation fund to general fund uses, and actively considering alternative revenue sources, such as bonding.

Route 7 Corridor

- ***Develop an improvement plan for the Route 7 Corridor.***

The Council recommends that the governor and legislature undertake the development of a 20-year multi modal long-term transportation improvement plan for the Route 7 corridor including commuter and other rail alternatives to address surface transportation needs of this vital north-south corridor. From Burlington to Bennington there have been discussions about relocating rail yards, adding a rail spur in the Middlebury region and upgrading the tracks for passenger rail. There

have also been discussions about safety concerns for vehicles along parts of Route 7 and also truck traffic. We must acknowledge that bypasses are not going to be constructed for many communities. Therefore we need strategies for making improvements to the infrastructure that is already in existence. Because this corridor has no interstate, it is a region that will rely on communications infrastructure to act as an engine for economic development. The 20-year plan for this corridor should include the development of telecommunications infrastructure as an integral economic development element.

1996 VEPC RECOMMENDATIONS AND UPDATES

1996 Recommendation # 45: Implement the Vermont Long Range Transportation Plan

VEPC urged the implementation of the state's Long Range Transportation Plan (LRTP) and urged that transportation-related economic development incentives coincide with other state programs and policies, such as regional growth centers and downtown development. The Council also urged that the local transportation advisory committees (TACs) be active players in regional transportation decisions. Further, the Council supported an economic development set-aside for "just-in-time" transportation investments and recommended an appropriation of \$500,000.

Update:

Agency of Transportation

The Vermont Agency of Transportation (VTrans) has just completed its five-year update of the Long Range Transportation Plan released in 1995. During the first five year period since implementation of the LRTP, the agency has initiated many of items the plan identified; investment in public transit and passenger rail; reorganization of the agency and implementation of a project manager system to improve communications with all interested parties and speed up the time it

takes to complete a project; development of new design standards for roads and bridges that reflect the needs of our rural environment; creation of the "local transportation facilities" program that allows towns to manage their own projects; and continued work with advisory councils for rail, air and public transportation. As part of the LRTP update, a statewide customer survey was completed and the results show that our efforts are addressing the public concerns as identified in the original plan and recommends we stay on course.

Among the newest initiatives at the Agency is the development of Performance Measures and Standards that will aid them in setting goals and benchmarks for overall performance, accountability, efficiency and productivity. VTrans is also moving towards the creation of an Asset Management system to guide them in future transportation project planning, maintenance and construction needs.

1996 Recommendation # 46: Improve the Capacity of Vermont's Most Used Roads and Bridges.

VEPC recommended upgrades for major routes, especially NHS routes, prioritization of highway and bridge projects to maximize state and federal resources and the adoption of Vermont Design Standards.

Update:

Agency of Transportation

A reconstruction project is starting construction this summer on Route 9 in the Searsburg-Wilmington area. Coupled with the Bennington Bypass Project activity, mobility in this part of the state will be improved. A reconstruction project has been completed on US Route 2 between St Johnsbury and New Hampshire, which will enhance the NHS corridor in that part of the state. Projects in Chittenden County are in the works to improve mobility in Vermont's busiest county. Bridge reconstruction and safety projects are underway along the inter-state routes to preserve that vital network.

1996 Recommendation # 47: Enhance Air Service

The Council recommended efforts to provide reliable and convenient air service between Burlington and Rutland and major cities, prioritization of airport projects to benefit economic development, and the attraction of more service to Burlington International Airport.

Update:

Agency of Transportation

In 2002 the Vermont Agency of Transportation continues to move forward with various construction and planning projects. The Agency is awaiting federal review of nine updated Master Plans or Airport Layout Plans. The Master Plan Update for one other airport (Morrisville-Stowe State Airport) should be completed later this year, providing current plans for all ten state-owned airports. These plans provide guidance for future airport infrastructure needs, as well as future locations for aircraft hangars. The Agency has hired a consulting firm to conduct a statewide Economic Impact Study of the 17 public use airports in Vermont. This study will provide key information to all decision-makers on the economic role the airports have on the community, the region, and the state. The Airport Capital Facilities Plan continues to be an important tool to prioritize future construction projects.

Recent items of interest relating to the enhancement of the state airport system are:

- The permanent Doppler VOR navigational aid was installed last year at the Rutland State Airport. This unit provides for more reliable air passenger and freight service during poor weather conditions. Improvements for this summer at Rutland include, relocation of an existing navigation aid, improved lighting for the aircraft apron and security fencing (all federally funded) as well as a new hangar site development area and terminal renovations. A second federally funded project, planned for Hartness State

Airport (Springfield), is reconstruction of apron area and taxiways, improving the current infrastructure.

- Two major runway projects were undertaken last summer both adding new infrastructure. Runway 18-36 at Newport State Airport was reconstructed. The project included new runway lighting, a partial parallel taxiway, and the installation of a precision approach path indicator (PAPI). Runway 17-35 at E. F. Knapp State Airport was reconstructed. The project included a partial parallel taxiway, new apron area, new runway lighting system, and electrical vault. The Knapp runway project will be completed during the summer of 2002. Runway projects were completed at Middlebury State Airport and Hartness State Airport the previous year.
- Automated Weather Observation Systems (AWOS), providing pilots with key weather information for arrivals or departures, have been planned for Caledonia County State Airport, Newport State Airport and Franklin County State Airport (installed summer 2001). Ground Communications Outlets were installed at Caledonia County State Airport, Franklin County State Airport, and William H. Morse State Airport (Bennington), greatly improving flight plan communications.
- Security fencing will be installed at some state airports during the summer of 2002. The fencing will increase safety and security, which is a priority with the Agency.

1996 Recommendation # 48: Improve Regional and Cross-Border Travel

VEPC urged AOT to continue to work through the New England Transportation Initiative, the Eastern Border Transportation Coalition, the Northeast Governors' Association and the Province of Quebec to improve transportation links between Vermont, our neighboring states and Quebec.

Update:

Agency of Transportation

VTrans continues to play an active role in the Eastern Border Transportation Coalition (EBTC), which includes the Canadian provinces and US states from Michigan eastward. Among their efforts of the past two years is the production of a regional and cross-border truck transport study that is due to be released in the summer of 2002. This joint effort with FHWA, Transport Canada and the Canadian Motor Transport Association will provide some significant information about international routing from origin to destination. VTrans has also been asked to serve on the new Bi-national Transportation Border Working Group (TBWG) which was established through an agreement between the United States Department of Transportation and Transport Canada in 2000. The TBWG represents all states and provinces, and federal transportation and border agencies on the US/Canada border. In light of the events of September 11, 2001, a number of new security issues that may impact transportation are being discussed.

At the regional level, the states of Maine, New Hampshire and Vermont are developing a joint initiative known as the TRIO project, that is a rural traveler information system which will see the first phase of operations begin in the fall of 2002. Funded predominantly through the TEA 21 Intelligent Transportation Systems (ITS) program, it will provide a variety of information services for both the general traveling public as well as for transportation maintenance and system operations personnel.

Another regional initiative is the Boston-Montreal High-Speed Rail feasibility study, a joint effort of Vermont, New Hampshire and Massachusetts transportation agencies. An HSR corridor designation was received from USDOT in October of 2000 and Phase I of a two-phase study is currently underway. VTrans was the lead agency for coordination of this designation application and continues that role for the study. Work on the study also includes staff members from the Quebec Ministry of Transportation and the City of Montreal.

1996 Recommendation # 49: Strengthen Vermont's Rail Freight Capabilities

VEPC urged the strengthening of Vermont's freight rail capabilities by encouraging double stack container service, supported the reinstatement of the rail siding match program, and supported expanded passenger rail service.

Update:

Agency of Transportation

The mission of the Rail Division is the preservation and enhancement of Vermont's rail infrastructure for freight and passenger service. In keeping with this commitment, the track structure between Rutland and Bellows Falls continues to be improved. This allows Vermont Rail Systems the ability to provide a more competitive price structure for freight movement. As the result, freight traffic has greatly increased on the Clarendon and Pittsford Railroad, Green Mountain Railroad and Vermont Railway. The State is currently involved in an aggressive track and signal rehabilitation program between Hoosick, New York and Burlington, Vermont. The infusion of state and federal monies will initially upgrade this line for rail passenger service between Albany, New York and Manchester, Vermont. Commuter service between Charlotte and Burlington, Vermont has been in service in December 4, 2000 and ridership continues to grow. The last portion of this project to be completed is the construction of a permanent station in South Burlington.

State funds have also been used to study the Bellows Falls tunnel. This portion of the New England Central Railroad is a major "choke" point in allowing double-stacked containers to be shipped from seaports to the south, through Vermont and into Canada. Currently trucks transport these containers. State monies are available for enhancement three-way match grants that allow the shipper to apply for assistance in constructing rail facilities to further develop their business and also to increase their overall rail freight traffic.

VTrans also continues to upgrade rail-highway crossings, inspect rail bridges for structural defects and conduct scour and hydraulic analyses. As required these structures are rehabilitated to correct deficiencies and to provide for increased rail car loading.

The State has purchased the former Boston and Maine rail line between White River Junction and Wells River. The Northern Vermont Railroad was selected as the operator of the line. The State, Regional Planning Commissions and the Legislature continue to discuss the Lamoille Valley Railroad and the best use of the line between St. Johnsbury and Swanton, Vermont.

Policy Area Eight

Science and Technology Initiatives That Stimulate Economic Growth

INTRODUCTION

The Vermont Science and Technology Plan, developed by the Vermont Technology Council, recommended the development of Centers of Excellence that build on the existing strengths and resources in Vermont to create future growth and development, and infrastructure initiatives that support research to develop innovations with commercial potential or to offer technical assistance in bringing these innovations into the market. The Vermont Technology Council has worked closely with several partners to develop and implement the Centers of Excellence and the infrastructure required to support research and development and technology transfer. The partners include: the Department of Economic Development, EPSCoR, VMEC, SBDC, UVM, and the Vermont State Colleges.

2002 VEPC RECOMMENDATIONS

Vermont Technology Council

- ***Continue state support for the Vermont Technology Council;***
- ***Provide a one-time appropriation of \$200,000 in FY 2005 to fund the development of two additional Centers of Excellence to support the on-going development of the state's strategic base industries.***

The Council supports the work of the Vermont Technology Council (VTC) to foster competitive, profitable enterprise and research and development based on science, technology and engineering. The Council recommends continued state support for the VTC and suggests that the VTC take a more visible role in encouraging

linkages between academic research and development and commercial research and development to foster increased technology transfer and commercialization.

The Council also recommends that the VTC charge be expanded to include a more representative set of Vermont strategic base industry sectors by providing a one-time appropriation of \$200,000 in FY 2005 to fund development of two additional Centers of Excellence to support the on-going development of the state's strategic base industries. The current Centers of Excellence provide a good template for assisting in the development of domestic business opportunities. These opportunities reflect a mix where Vermont's research competencies appear to be above average. This initiative would bring together and match this research competency with Vermont's base industries into an integrated approach to commercialization of those research competencies.

University of Vermont

- ***Support increased collaboration between UVM and the business and economic development communities to develop the University's research and development capabilities;***
- ***Increase state support for the University of Vermont by providing \$500,000 for the purpose of enhancements in applied research and technology transfer in the College of Medicine.***

The Council is very encouraged by recent announcements by the new University of Vermont leadership to invest in engineering and build on the University's potential to be a center for research and development capability. The Council supports these efforts because of the potential for technology and knowledge transfer that can help drive the economy. The Council recommends support by the state for these efforts and urges increased collaboration by UVM with the business and economic development communities in the development of the University's research and development capabilities.

The Council specifically recommends increased state support for the University of Vermont by providing \$500,000 for the purpose of enhancements in applied research and technology transfer in the College of Medicine. From an economic development perspective, Vermont is not taking adequate advantage of advanced, primary research now underway at its leading academic institutions of higher learning. In particular the state is not taking advantage of the leading edge, applied medical research now underway at the University of Vermont. This initiative is intended to develop and implement a specific strategy for taking maximum advantage of commercialization opportunities afforded by this research, such as a biotech incubator project being developed by the University.

Small Business Innovative Research

- ***Increase state support for the SBIR program.***

The Council supports the efforts of the Small Business Innovative Research (SBIR) Outreach program, a collaboration of the Department of Economic Development, Vermont Technology Council, EPSCoR, and SBDC. The program, which is funded by federal and state funds, uses workshops, online information, a mentoring program, and personal technical assistance to increase the number of federal SBIR grants awarded to Vermont businesses. From 1997 to 2002, 25 Vermont businesses have received 84 grants worth \$16 million to bring their innovative products through the research phase in preparation for commercialization. The Council recommends continued and increased state support for this program and supports the merger, at the state level, of this program with the Government Marketing Assistance Center.

1996 VEPC RECOMMENDATIONS AND UPDATES

1996 Recommendation # 50: Ongoing Planning for Science and Technology

VEPC recommended implementation of the Governor's executive order to devise a methodology to determine science and technology policy priorities.

Update:

Vermont Technology Council

The Vermont Technology Council was formed in 1992 by a group of Vermonters who recognized the potential of bringing together the high quality research of our university and colleges, the entrepreneurial capacity of our business sector, and the support and collaboration of state government in new ways that would benefit the Vermont economy. In 1994, at the request of Governor, the Vermont Technology Council produced the first Vermont Science and Technology Plan.

The Vermont Technology Council is responsible for implementing the Vermont Science and Technology Plan, which includes the following activities:

- Creating and fostering linkages between academic research facilities and the business sector in Vermont.
- Securing private and public support for the establishment and enlargement of scientific and technological research and development centers (the "Centers of Excellence").
- Providing policy guidance to the Vermont Experimental Program to Stimulate Competitive Research (EPSCoR) and the Vermont Manufacturing Extension Center (VMEC).
- Generating new plans for the development, capitalization, and successful implementation of scientific and technological innovations within Vermont.

1996 Recommendation #51: Development of the Centers of Excellence

VEPC recommended the development of Centers of Excellence to support research and development in certain sectors.

Update:

Vermont Technology Council

The Vermont Technology Council has carefully evaluated Vermont's scientific and technological strengths, and has determined that the following disciplines are fertile areas in which government, private enterprise, and Vermont's academic institutions should work together to stimulate technology-based economic development:

(1) Information Technology. The *Vermont Information Technology Center* (www.vtinfotech.org) was created in early 2000 by the Vermont Technology Council and Champlain College. Its mission is to become a major resource point for Vermont individuals and organizations with an interest in the various aspects of information technology to support the expansion and improvement of the Vermont economy.

(2) Food Science. The *Center for Food Science* was formed in 1996 by the Vermont Technology Council and the University of Vermont. As a partner in the Northeast Center for Food Entrepreneurship (www.nysaes.cornell.edu/nefce/), its mission is to provide research and development expertise, technical assistance, and basic education about food processing and safety, in support of the Vermont food processing industry. The Technology Council also works closely with the Vermont Food Safety Network (www.vtfoodsafety.org) to promote food safety throughout the state.

(3) Environmental Science. The *Vermont Environmental Consortium* (www.thinkvermont.com/environmental/consortium.cfm) is a partnership of private industry, government agencies, and educational institutions leveraging the skills of the partners to develop sustainable growth for the Vermont environmental sector. The overall goal of the Consortium is to double Vermont's environmental business, as measured by gross sales, within five years. Member companies also participate in environmental education initiatives in collaboration with Vermont colleges and universities.

(4) Materials Science. The *Vermont Center for Advanced Materials Studies*, a "virtual center" created in 1996 by the Vermont Technology Council, brings together academic and industrial scientists working on the development and characterization of novel materials. This organization has focused on polymer science, an area in which many Vermont companies have important applications.

(5) Biological and Medical Sciences. Biological and medical research at the University of Vermont (www.med.uvm.edu) produces many technological innovations with valuable commercial applications. Over the past several years, the *UVM College of Medicine* has been instrumental in improving the University's technology transfer program, facilitating the transition of these innovations to the business sector. As an active partner in this program, the Vermont Technology Council continues to foster collaborations between Vermont businesses and academic scientists in the biological and medical sciences.

1996 Recommendation # 52: Science & Technology Infrastructure Initiatives

VEPC recommended support for EPSCoR and VMEC and endorsed the creation of a patent and trademark depository and library.

Update:

Vermont Technology Council

In its Science and Technology Plan, the Vermont Technology Council proposed a number of infrastructure improvement programs. The following programs are now in place:

(1) The *Vermont Experimental Program to Stimulate Competitive Research* (<http://epscor.uvm.edu>) provides support to our research sector through a number of innovative funding mechanisms, and since its inception has leveraged \$2.9 million in State support with federal awards of nearly \$17 million.

(2) The *Vermont Manufacturing Extension Center* (www.vmec.org) was established by the Vermont Technology Council and Vermont Technical College to provide support and services to help Vermont's manufacturers solve problems, increase productivity, modernize processes, and improve their competitiveness. From 1997 to 2000, VMEC has served over 700 manufacturers throughout Vermont.

(3) The Vermont Technology Council, in collaboration with Vermont EPSCoR, the Vermont Department of Economic Development and the Vermont Small Business Development Center, has helped to create Vermont's *Small Business Innovation Research Outreach Program* (www.thinkvermont.com/sbir/index.cfm). Through the use of workshops, online information, a mentoring program, and personal technical assistance, this program seeks to increase the number of federal SBIR grants awarded to Vermont companies. In 2001, the Vermont Technology Council was awarded a \$100k grant from the U.S. Small Business Administration to lead this effort.

(4) The University of Vermont has dramatically improved the effectiveness of its *Technology Transfer Program* (www.uvminnovations.com) in recent years. Based on the University's research funding levels (primarily from federal grants), this translates into one invention disclosure for every \$2 million of research funds, equaling the national average for universities.

(5) The Vermont Technology Council created the *Vermont Academy of Science and Engineering* (www.vase-honors.org) in order "to recognize outstanding achievement and contribution in the broadly defined area of science and engineering, to promote deeper understanding and reasoned discourse on scientific and technical matters among the citizens of the State of Vermont, and to provide expert and impartial technical advice to the people and government of the State of Vermont". The Academy's members represent many scientific and engineering disciplines.

Policy Area Nine

An Efficient and Effective State Government

INTRODUCTION

Vermont state government needs to be run so that it gets the job done (effective) with the least amount of resources (efficient) while addressing the issues most important to Vermonters. It should function as a catalytic agent for action, which is how this policy area relates to economic development. Industry will create most of the jobs but government policies and the effective delivery of programs can help the private sector create those jobs. In fulfilling its role, state government can expand its use of strategic planning processes, including a selective, or tactical, implementation of policies. These should be carried out by an increasingly integrated, well-designed system of governance that communicates internally and externally.

2002 VEPC RECOMMENDATIONS

Strategic Planning

- ***Reinstate the position of State Planning Director.***

The position of State Planning Director, who oversaw the State Planning Office and was housed in the governor's office, was eliminated by the Dean administration. The Planning Office analyzed the economic and political impacts of proposed policies and sought the perspective of affected state agencies and departments. Under the current structure, the governor's staff essentially serves a liaison function between the governor and the rest of state government to develop, track, and coordinate policy proposals through a bottom-up approach with planning coming from within departments and agencies. As a result, there is no integrated mid- and long-range planning based on an overarching strategic plan. The long-range

economic planning function of the Vermont Economic Progress Council partially fills this void. However, the Council was designed to function as an independent body gathering input from varying interests from around Vermont and acting as a forum for the private and public sectors to interact regarding economic planning. In this role, the Council does coordinate with state agencies and the administration. But with limited resources and a mandate to cast a broad net, the Council is not able to work through all the implementation details of initiatives. The Council recommends that the position of State Planning Director be reinstated and housed in the governor's office and supplemented by administrative assistance and research resources. The Council and the Planning Director would collaborate on developing an economic planning agenda.

Terms of Office

- ***Introduce a Resolution for a Constitutional referendum to change terms of office for governor, statewide elected officials and state senators to four years.***

For the reasons outlined in the 1996 VEPC report, the Council continues to support four-year terms for governor, statewide officers and state senators. Longer terms are a step towards greater predictability and continuity in state policy making and implementation. The Council recommends that research be undertaken to determine the experience of states that switched to four-year terms for governor and other statewide officials as a means towards greater predictability and continuity in state policy-making and implementation. The Council supports a Resolution for a Constitutional referendum to change the terms for governor, statewide elected officials and state senators to four years.

State Purchasing Power as an Economic Engine

- ***Aggregate state purchasing to realize efficiencies and to utilize the products and services of Vermont companies.***

The strategic industry research conducted by the Department of Economic Development shows that one of the elements that keeps a strategic industry viable are strong domestic supplier and buyer linkages. If a business has multiple forward and backward links within the state, they help build the economy, support other Vermont businesses, and are much more likely to stay and prosper. As mentioned in the policy areas on telecommunications and economic development, the Council recommends that the state government explore its role in strengthening its economic links by aggregating purchasing power to the benefit of all Vermont business sectors. Taken as a whole, state government purchases millions of dollars in product and services each year. The impact of that purchasing power on the Vermont economy could be enormous and the example set by state government would encourage others. Every effort should be taken to aggregate state purchasing to realize efficiencies and to utilize the products and services of Vermont companies.

From public institutional purchases of local agricultural products to state agency purchases of information technology, the emphasis should be “Buy Vermont First.” The state should also explore ways to urge the same emphasis by local governments and the private and non-profit sectors, such as through incentives.

An effort by the Vermont Sustainable Jobs Fund called the “Cornerstone Project” is examining how major public and private institutions such as hospitals, academic institutions, and local and state government can serve as economic engines for the Vermont economy. The Council recommends support for efforts to strengthen linkages between major Vermont institutions and the Vermont economy, such as the Cornerstone Project. The Council also recommends a directive by the governor and the development by the Agency of Administration of a policy, campaign and enforcement mechanism to ensure that state agencies and state-funded entities utilize the products and services of Vermont companies whenever possible.

As discussed in Policy Area 3, increased resources for the Government Marketing Assistance Center and the Seal of Quality program would also help increase consumer to business, business to business and business to government purchasing and contracting connections within the Vermont economy.

1996 VEPC RECOMMENDATIONS AND UPDATES

1996 Recommendation #53: Study of Statewide Benchmarking
VEPC recommended a study to determine the feasibility of applying benchmarking for state programs.

Update:

Agency of Administration

Over the past few years, the Agency of Administration has focused on performance management as an important tool for state government. Several agencies and a number of departments have already done a great deal of work with results-based decision making and we are working to extend this work to the rest of state government. We brought in Mark Friedman of the Fiscal Policy Studies Institute to lead the workshop, “The Basics of Results and Performance Accountability” for state agencies and have embraced much of Mr. Friedman’s approach: a common language, a common presentation, limited indicators, and limited but meaningful performance measures. The goal is to bring results based thought and decision making to Vermont State government.

In particular, for the FY2003 budget every agency and every department prepared the budget of one program under our performance management/budgeting guidelines. This is one of the first steps in taking full advantage of the new financial VISION system. The goal is to have the entire FY2004 budget prepared as a performance-based management tool. The new financial management system, VISION will eventually have the ability to provide programmatic information to help us know exactly what we are

spending on a particular effort or program, and how successful our programs are.

1996 Recommendation #54: State Planning Director

VEPC recommended reinstatement of the State Planning Director position, housed in the Governor's office and supplemented by administrative assistance and economic research tools provided by the Agency of Administration.

Update:

Agency of Administration

The current administration has a bottom-up approach with strategic planning coming from within departments and agencies rather than mandating a strategic plan from the top-down. There is a strong cabinet government with individual strategic plans developed by the five agencies and the independent departments. All departmental plans within an agency are integrated at the agency level.

Also, there is now a Director of the Office of Policy, Research & Coordination in the governor's office. The Office consists of 6 people, the director, 4 analysts and one administrative assistant. The purpose of this office is to develop and track policy proposals and coordinate policies and strategic plans across the various agencies.

Additionally, the administration supported dedicating a portion of the property transfer tax to support regional planning efforts – another example of the bottom-up approach.

Recommendation #55: Continued Reorganization of State Government

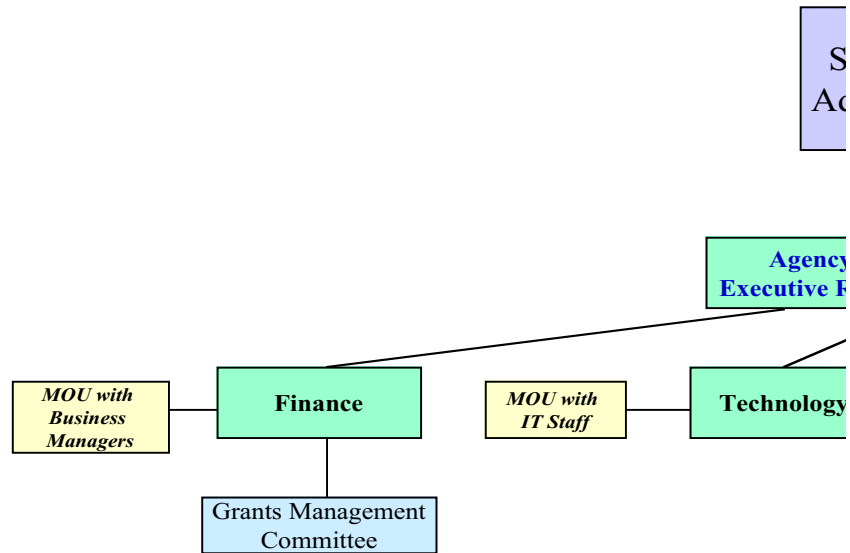
VEPC recommended that the state consider reorganization or restructuring when possible, instead of personnel cuts.

Update:

Agency of Administration

The Secretary of Administration and the Commissioner of Personnel have been working on a plan to how the Agency of Administration works and interacts with the rest of state government. The following organization chart outlines the new vision:

Proposed State of Vermont Functional



The Agency of Administration Executive Resource Plan resource planning.

Specific functional accountability to include the following

CIO	Los
CIT	Reti
GOVNET	Disa
Personnel	Reti
Unemployment Compensation	Buil

The Intent Of This Structure Is To Facilitate More Efficient And Effective

- **Formalizing** a system for statewide strategic resource planning with the Agency of A
- **Creating** a forum for statewide communication-- information gathering; sharing of t
- **Clarifying** roles and accountabilities
- **Eliminating** duplication of effort thereby cutting costs and maximizing the value of t
- **Establishing** a forum for the development of a continuous planning and improvement action plans— decision-making and prioritization based upon factual data and perti

1996 Recommendation # 56: Four-Year Term

VEPC recommended research on the experience of states that switched to four-year terms for governor and other statewide officials as a means towards greater predictability and continuity in state policy making and implementation.

Update:

The recommended research was not undertaken. A resolution to amend the Vermont Constitution regarding the length of terms for statewide offices was introduced in 1996 and passed by the Senate, but was not considered by the House.

Policy Area Ten

Affordable Housing for the Workforce

INTRODUCTION

The issue of housing availability and affordability is broad and multifaceted. The Council's focus is on the relationship between housing availability and affordability and economic development. The lack of affordable and available housing is a significant threat to future economic vitality. If the housing stock does not increase to meet the demands of the workforce, businesses cannot grow and expand. If businesses find that they cannot retain and attract a workforce because housing is unaffordable or unavailable, they have another reason to locate or expand elsewhere.

When referring to housing, many people equate "affordable" with subsidized or low-income housing. The Council agrees that paying 30% of a family's income on shelter costs, while not a perfect standard, is a good place to start to determine affordability. The Council is concerned about the development of housing at all levels of affordability. There are state and federal resources available – albeit not enough – to build affordable rental housing for the lower income groups. The problem is that housing development, for reasons outlined below, is currently concentrated in the highest price ranges. What are not getting built are the moderately priced rental units and starter homes for the middle income Vermonter.

The primary concern the Council would like to emphasize is the shortage of available housing supply. That problem, in turn, impacts affordability for the whole spectrum of incomes. The impact affects the viability of our communities and the economy when Vermont's working families cannot afford housing in the region in which they are employed.

Vermont is experiencing an extreme shortage of housing for both rental and purchase. The shortage is especially acute in certain regions (Northwest, Upper Valley, Brattleboro area) and in the price range that most Vermonters can afford.

According to the study, *Housing in Northwest Vermont* (EPRI, August 2000), the economy of the northwest region of Vermont has the potential to add approximately 44,250 jobs by 2010. To meet that growth, the region needs an additional 7400 units of housing in the immediate future. The study forecasts the demand for the next 10 years to be an additional 23,600 units. The current market will only be able to supply about 13,000 of these units, leaving a gap of 10,600 units on top of the current shortage. The rental vacancy rate in the six northwestern counties is 2.5% and was below 1% in Chittenden County from 1996 until December 2001.

The Upper Valley region (Hartford-Lebanon, NH) has a very strong regional economy. The unemployment rate is 1.6% (June 2002) and major employers indicate that nearly 12,000 new, high-quality jobs will be created over the next decade. A recent housing study of the Upper Valley region concluded that housing production in that region needs to nearly double during the next ten years and there will be a need for over 6,800 additional housing units. The rental vacancy rate there is in the 2% range.

The study of housing in the Northwest took into account an economic downturn, so it is not anticipated that the current economic situation will change the housing unit shortfall projections.

UNDERLYING ISSUES

The Council heard testimony and received materials on the housing issue that can be summarized into the following underlying issues:

The lack of investment in the development of housing in certain price ranges: Other forms of investment have become much more attractive because the return on investment in housing development has

diminished below an acceptable level. This problem has a double impact. Increased development costs increase the costs of home building, cutting into the profit margins of developers, making the prospect of building more housing less attractive. As a result, less development stagnates the housing supply, forcing up the price of the housing supply that is available. Further, it increases the demand for public expenditures on affordable housing production. The diminishing availability of housing is one indicator of this problem. Another is the shrinking number of developers actually available to build housing in Vermont, especially those that have the capacity to build larger developments. The exit of smaller developers and skilled labor from the home building industry creates less competition and price pressure and may hinder our ability to meet future housing demand.

There are several factors impacting the return on investment in housing development, including:

- The cost of land and lack of available, developable land;
- The cost of developing land, including infrastructure costs;
- The amount of density allowed by town zoning;
- The opportunity cost of having funds tied up in development during the often lengthy and uncertain permitting processes;
- The cost of construction, including lack of available labor;
- Increased costs of services to developers (architects, engineers).

NIMBYism: There is a lack of public understanding regarding the magnitude of the housing issue. Many housing projects are either stalled or greatly decreased in terms of density during the local review process. There is also confusion about what is meant by “affordable” housing. Some opposition to projects considered “affordable” is based on the assumption that affordable means subsidized, when actually it often means affordable housing for middle income working families headed by our community’s professionals such as teachers, police and firefighters.

Complexity of the affordability issue: Affordability is more complex than the price of a house. While price is very important, affordability

also involves the lack of familiarity with the credit process and lack of experience with consumer finance. For many affordable housing consumers, saving for a down payment and establishing credit are major obstacles. Homebuyer education is especially important for low and moderate-income homebuyers.

Act 60 misunderstandings: Because of the law’s complexity, there continues to be a lack of understanding on the local level of some Act 60 impacts. When housing development does not require a capital expenditure for school expansion, then under Act 60 there will be no change to the state education tax. In most of the state, especially outside Chittenden County, schools are actually seeing a decrease in student enrollment. Some of these towns continue to believe that new housing automatically equals increased state taxes. However, where a housing development does require a school expansion, the additional costs associated with school expansion becomes a disincentive for some communities to encourage affordable home construction for families in their area.

Lack of commitment to deal with the underlying issues: There will not be widespread support for the development of more housing without a sustained commitment from the top of state government down and a concerted effort to understand and address the underlying issues impeding development and increasing the costs of housing development. The lack of a sustained commitment can also cause a lack of cooperation among the entities that could promote the development of more affordable housing and may prevent the initiation of regional approaches that are required to get projects approved.

2002 VEPC RECOMMENDATIONS

Housing and Regulation

- *See Policy Area 1 for recommendations regarding the state’s regulatory and land use system.*

If the stock of available housing is to be increased by any degree close to the current need and projected future need, the vast majority will

have to be developed by, or in partnership with, the private sector. Private sector housing developers are businesses, which must make a profit to stay in business, provide jobs, and continue to attract investment in further housing development. These businesses will only consider building higher-end homes or investing in other markets unless and until impediments such as land use regulations are streamlined or modified and the process made more predictable and timely. The Council heard over and over in testimony and material submitted that the cost of having funds tied up in development during the often lengthy and uncertain permitting and appeals processes make it impossible to build housing in any substantial quantity or at a cost affordable to most Vermonters.

Policy Area One of this report contains several recommendations regarding the state's regulatory and land use system. The issues outlined there and the recommendations made are critical to ensuring our economic future through appropriate development in general, but especially alleviating the housing shortage in Vermont. Please refer to the recommendations made in Policy Area One for general regulatory and permitting issues that apply to all types of development.

Previous Studies

- ***Implement previously recommended actions.***

During the last biennium, Act 62 (H483) was enacted which included requirements for several studies, commissions, and work products by the Department of Housing and Community Affairs (DHCA) relative to the simulation of the development of housing. The Council applauds the intentions of this legislation and commends DHCA and other agencies and organizations involved for the efforts they undertook to carry out the requirements and develop the work products. Many of the studies and reports addressed the problems inherent in development in Vermont generally, but especially focused on those issues impacting the development of housing.

The Council supports the recommendations made by the Municipal Planning Review Commission (January 15, 2002 Report to the General

Assembly), the Report by the Agency of Commerce and Community Development regarding linking economic development and housing (required by Act 62, Section 3c), and the Task Force on Redevelopment of Upper Stories and New Town Centers. The Council encourages the legislature to follow through on the recommendations made in these reports and ensure that the remaining studies and follow up studies are completed.

Alternative Septic Systems

- ***Adopt broad performance standards for alternative on-site systems.***

In past reports, the Council has encouraged rules that allow the use of emerging technologies for on-site wastewater treatment, closure of the "ten-acre" loophole, and management of the on-site septic system review process by municipalities. The Council was encouraged by passage of S.27, which eliminates the "ten-acre loophole" and allows for installation of alternative septic systems. This will allow for more land to be developed for housing, especially within growth centers where traditional systems might prove inefficient. Allowing municipal review will reduce duplication and redundancy with state regulators. The Council urges DEC to consider broad performance standards for alternative on-site systems, even if they have not been tested in Vermont, as long as they have been proven effective.

Downtown and Growth Center Housing

- ***Revise the Downtown Program legislation to provide more incentives to develop in downtowns.***

The legislature also made some improvements to the Downtown Program, including raising the threshold for Act 250 review for mixed income or mixed-use housing development in Designated Downtowns. The Council recommends that this issue be revisited during the next session and the legislature consider:

- Expanding the new threshold to Village Centers and New Town Centers;

- Waiving Act 250 review for any mixed income or mixed use housing developments in designated Downtowns, Village Centers or New Town Centers, especially those in critical need areas;
- Provide for off-site mitigation for certain Act 250 criteria.

At the very least, all Act 250 criteria should be examined for possible waiver for housing projects under certain circumstances, such as locating in designated growth areas. For example, denying a permit for an affordable housing project planned for an area designated for growth because there are primary agriculture soils present does not give housing the priority it deserves when those soils have not been utilized for agriculture for 30 years.

Municipal Review

- ***Develop a system that facilitates and encourages municipalities to eliminate barriers to housing development.***

As with other kinds of development, many of the impediments to the development of housing are present at the local level. Much of the opposition to housing projects begins at the local level, among neighbors or in the community in general. Other issues arise when local development plans do not adequately address the development of housing, restrictive zoning acts as a disincentive, or local zoning bylaws do not reflect the goals of local or regional plans with respect to housing. The Council recommends that the state develop a system that facilitates and encourages municipalities to eliminate barriers to housing development, such as:

- The formation of development review boards;
- Participation in training for municipal boards;
- Completion of plans that include affordable housing as part of a comprehensive plan including job creation, commerce, transportation, and family services;
- Adoption of local zoning incentives, such as density bonuses, for intensive housing development where appropriate;
- Streamlined local permitting processes;
- Providing municipally owned land or resources to underwrite development costs;

- Participation in efforts to solve housing problems regionally.

Housing Awareness

- ***Support the Housing Awareness Campaign;***
- ***Provide sustained political leadership on the housing issue by taking an active role in the issue and appointing an Ombudsman or Coordinator;***
- ***Identify an umbrella of governance to overcome regional or multi-jurisdictional issues;***
- ***Fund housing needs assessments.***

Part of the reason housing development is rejected on the local level is a lack of public understanding regarding the magnitude of the housing issue. There is also confusion about what is meant by “affordable” housing. Some opposition to projects designated as “affordable” is based on the assumption that affordable means subsidized, when often it is housing for middle income working families headed by our community’s professionals.

The Vermont Housing Finance Agency is sponsoring a partnership between State government, non-profit housing organizations, private sector developers, lenders, the business community, environmental groups and others involved in the housing industry with the goal of creating an environment of public acceptance and support for affordable housing around the state. The group is attempting to define the need, promote the need and overcome resistance in communities. But there is the requirement for long-term, sustained political leadership on the issue and the need to identify an umbrella of governance to overcome regional or multi-jurisdictional issues. Some specific steps should include State funding of prospective housing needs assessments like the “Affordable Housing Needs Assessment in Northwest Vermont” to establish a baseline and projected need. Further, the governor should take an active role in the issue and appoint an ombudsman or coordinator to establish a strategy, carry through on initiatives to address the problem and overcome multi-jurisdictional issues. That person would also be responsible for

conveying to all levels of state government the importance of the development of affordable housing, and when appropriately located, expedite approval processes.

Another tool is the development of a set of criteria for the development of affordable housing that can be endorsed by business groups, housing advocates and environmental groups. Then, when a housing project is proposed, if it meets the criteria, the same groups can endorse the project. This approach was utilized in New Hampshire and Southern Maine in a “Workforce Housing Coalition”. The Council recommends such collaboration among state agencies, community groups and business in Vermont and commits to doing its part to involve the business community.

Affordable Housing Program Coordination and Funding

- ***Maintain or increase general fund support for the programs administered by or through VHCB, DHCA, and AHS.***

Even when the impediments mentioned above, such as permitting issues, are eliminated there will still be the need for the state to provide funding for the various programs to stimulate housing development and provide assistance to certain individuals. Annual state funding for affordable housing totals approximately \$8 - 9 million for programs administered by or through the Vermont Housing and Conservation Board (VHCB), the Department of Housing and Community Affairs (DHCA) and the Agency of Human Services (AHS). These state funded programs leverage about \$60 million in other funds, such as federal programs, plus millions of dollars in tax-exempt and taxable bonds, bank financing, and equity from private investors. For fiscal 2003, the state estimates that \$21.6 million in funds from all sources will result in the investment in \$170 million in programs providing loans and grants for affordable housing development and housing assistance to individuals and rental assistance.

The major state housing agencies, together with their federal, regional and local partners have developed a delivery system that is well coordinated and admired throughout the country. Increased

coordination has resulted in leveraging increased federal resources, maximizing the use of state and federal resources, and ensuring the availability of the mix of resources – both public and private - that are so necessary to ensure the successful completion of a housing project.

With the exception of the graduated property transfer tax idea, the Council supports the recommendations that resulted from the 2001 Rural Summit, convened by the Vermont Council on Rural Development, which focused on housing issues. The Summit recommendations included several ideas to maximize resources and improve coordination.

The Council also recommends that the state maintain or increase general fund support for the programs administered by or through VHCB, DHCA, and AHS.

Pre-permitting Fund and Other Financing Options

- ***Explore the concept of bonding to create a “pre-permitting revolving loan fund;”***
- ***Explore other innovative funding mechanisms, in combination with incentives when necessary, through VHFA.***

The Council heard testimony stating that there is plenty of capital available for qualified individuals and housing developers. The access to capital issue for developers is that commercial lenders are unwilling to lend against a project until permits are in place. The Council recommends that VHFA explore the concept of bonding to create a “pre-permitting revolving loan fund”, with allocations from the state to cover operating costs through the initial cycle, or alternatively, the creation of a fund through a one-time appropriation. The fund would be used for revolving loans to developers, for projects evaluated by VHFA staff for likelihood of permitting, and secured by the property. VHFA participation could be at a fixed percentage, or it could vary depending on the degree of likelihood of permitting. The loans would be interest only until permitting is complete, and bought out by commercial or existing program financing. Projects that fail to complete permitting would result in the sale of the property by the

developer or conveyance of the property to VHFA for sale. Interest, fees and foreclosure sales would all be necessary to maintain the fund. The possibility of obtaining such financing could encourage housing developers to take steps to ensure a positive permitting outcome such as involving the community early in the process. VHFA could develop a set of guidelines for housing developers to follow to help ensure approval.

The Council also recommends that a study committee be convened to explore innovative funding mechanisms, in combination with incentives when necessary, through VHFA such as:

- A VHFA product or incentive for employers for the development of housing for VHFA-qualified employees;
- A VHFA tax credit on investment in housing by Vermont companies;
- A VHFA security that can be guaranteed by partnering directly with Vermont companies;
- A VHFA instrument that allows VHFA to partner with Vermont businesses to buy bonds from VHFA at lower than market interest rates to develop housing near the Vermont business.

Incentives for Developers

- ***Develop and utilize a system that maximizes benefits to developers who provide the highest quality housing at the lowest cost and manage housing to maintain quality over time.***

The Council believes that the state should recognize and reward good performance by housing developers, both for- and non-profit. The Council recommends that state programs develop and utilize a system that maximizes benefits to developers who provide the highest quality housing at the lowest cost and manage housing to maintain quality over time.

The state's many non-profit housing organizations work very hard to maximize housing production dollars in their partnerships with for-profit developers and builders. This requires that they use bargaining

skills, pay attention to detail, and maintain careful monitoring. The Council recommends that the state develop and allow the use of incentives that may reduce costs without sacrificing quality. One such idea is to allow developers working with non-profit organizations to retain cost savings they realize through negotiations with subcontractors or other means if they also maintain quality standards.

Needs Assessments and Benchmarks

- ***Fund additional needs assessments and establish benchmarks for housing programs.***

With the exception of the northwestern region and the Upper Valley, the state does not have a definitive understanding of the overall need for affordable housing in Vermont. Further, the state does not benchmark affordable housing programs to determine where we are in relation to the need or which programs work best. To provide an overall housing needs assessment for the state, the Council recommends funding additional housing studies for the rest of the state. Once the need is identified, the Council recommends the creation of clear, simple benchmarks for affordable housing programs, especially to track the effectiveness of funding, such as:

- Tracking monthly and reporting annually the number of affordable units receiving a certificate of occupancy and the total development cost per unit;
- Tracking annually the operating costs per unit of all affordable housing, occupancy rates, amount of public investment per unit, the income of those living in affordable housing, and the quality of housing based on inspections;
- Track the effectiveness of new proposals as they are adopted.

Homebuyer Education

- ***Expand homebuyer education programs***

Affordability is more complex than the price of a house. While price is very important, affordability also involves the lack of familiarity with the credit process and lack of experience with consumer finance. For many "affordable housing" consumers saving for a down payment and

establishing credit are major obstacles. Homebuyer education is especially important for low and moderate-income homebuyers. The council recommends funding the expansion of homebuyer education programs through the established Home Ownership Centers and within community organizations such as the Vermont Development Credit Union. Expansion should include extending the geographical reach of the Home Ownership Centers, the expansion of their offerings beyond personal finance and credit to include permitting and other assistance for those building their own homes and matching home-buyers and builders with non-traditional lenders, and the recruitment of more businesses in their programs or the creation of in-house programs by businesses.

Act 60 and Property Tax Incentives

- ***Revisit the school construction issue in Act 60;***
- ***Development an incentive that ties a municipality's education property tax liability to its willingness to allow, and remove local impediments to, the development of affordable housing;***
- ***Examine property tax incentives that would stimulate the production or rehabilitation of more housing and rental units, especially by the private sector***

The legislature took a step towards addressing the Act 60 disincentive issue during the last legislative session. Act 60 sharing is waived for school construction projects in property wealthy towns, provided the project commences in the next three years and the town agrees to forego the 30% state construction aid. The Council recommends that when the legislature considers changes to Act 60 during the next session, this issue be revisited and school construction costs be removed from sharing costs.

The Council heard testimony to the effect that housing policy is school policy. The degree to which the economic status of students is mixed in schools has a greater impact on scores than the amount of money spent per pupil, the class size or any educational reforms. Having a mix of incomes making up a community ensures that the people who provide services for the community – EMTs, nurses, teachers, and contractors –

can afford to live in the community in which they work. The council recommends the development of an incentive that ties a municipality's education property tax liability to its willingness to allow, and remove local impediments to, the development of affordable housing.

The legislature should also examine property tax incentives that would stimulate the production or rehabilitation of more housing and rental units, especially by the private sector. These could include:

- Expand the dollar amount or duration of the property tax exemption allowed under 32 VSA, section 3836;
- Provide an incentive from the state for municipalities to utilize the property tax stabilization allowed under 24 VSA, section 2741;
- Provide a state incentive related to the statewide property tax for new affordable housing projects and the rehabilitation of properties in Designated Downtowns, Village centers and New Town Centers;
- Waive the requirement for federal financial participation in 32 VSA section 5404a(a)(3) to encourage the utilization of statewide property tax stabilization for affordable housing production and rehabilitation by developers not using federal financial assistance. Tie the incentive to the development of affordable or mixed use housing in areas with critical need;
- Consider an exemption from the sales and use tax for building materials used in the development of affordable housing.

Other Housing Ideas

The Council heard testimony regarding several other ideas and concepts that are currently being examined. The Council supports further scrutiny and possible development of the following:

- Inventory publicly held land that could be utilized for housing development at no or low cost;
- Examine the possibility and benefits of creating an Employer Assisted Housing Program in Vermont;
- Examine methods to provide incentives to home-sellers that help finance the sale of their homes through owner financing;

- Approach the State's Congressional delegation regarding changes to federal tax law regarding depreciation of real estate and lifting of the passive activity rules to allow real estate losses against earned and investment income;
- Institute housing inspector system so that lenders do not end up ensuring permit requirements.

Part IV. Vermont Indicators

The Council selected 78 indicators to represent various aspects of Vermont's economy, people, communities, environment, and infrastructure. The data has been drawn from a variety of sources, which we list in the second to last column. Where data is available and has been collected on a consistent basis, we have reported it for 1980, 1990, 1992, 1997, and "Current" (2001, or as noted.) Since the Council began its work (as the Vermont Partnership for Economic Progress) in 1993, 1992 was chosen as the "Baseline" year.

Very few of the indicators have the "Goal" column completed. We emphasize that great care must be taken in suggesting statewide targets and the Council feels broad-based input is needed to determine and validate these goals. Goals that are listed have been developed by state agencies and departments. The Council has not reviewed the processes used to arrive at these goals. Thus, we do not necessarily endorse them.

<i>Vermont Indicator</i>	<i>Historical 1980</i>	<i>Historical 1990</i>	<i>VEPC Baseline 1992</i>	<i>1997</i>	<i>Current *</i>	<i>Goal ** [Year]</i>	<i>Data Source</i>	<i>Comments</i>
The Economy and Employment (note: employment data is based on SIC code)								
1. Vermont per capita income	\$8,629	\$17,677	\$18,883	\$23,017	\$27,992	Equal to National Figure [2004]	DET	
2. Vermont per capita income as a percentage of national average	85.8%	92.3%	91.9%	91.0%	92.5%	100 % [2004]	DET	
3. Average Vermont wage—all sectors % Vermont wage to national average	\$11,840 82.7%	\$20,531 88.3%	\$22,364 86.3%	\$25,506 84.1%	\$28,920(2000) 81.9%	100 % [2004]	DET	
a) • Manufacturing sector only % of national average	\$15,366 88.5%	\$28,187 97.6%	\$30,512 95.8%	\$34,522 90.1%	\$39,783(2000) 88.8%	100% [2004]	DET	
b) • Transportation & Public Utilities % of national average	n/a	\$26,514 88.2%	\$28,696 87.3%	\$31,630 84.1%	\$35,855(2000) 82.2%	100% [2004]	DET	
c) • Agriculture, Forestry, and Fishing % of national average	n/a	\$15,410 109.4%	\$15,944 105.4%	\$17,216 98.6%	\$19,228(2000) 94.9%	100% [2004]	DET	
d) • Wholesale Trade % of national average	n/a	\$25,150 83.7%	\$28,061 85.3%	\$31,647 80.2%	\$36,263(2000) 77.6%	100% [2004]	DET	
e) • Retail Trade % of national average	n/a	\$12,127 95.4%	13,441 94.2%	\$14,550 91.6%	\$16,558(2000) 89.8%	100% [2004]	DET	
f) • Construction % of national average	\$13,044 75.0%	\$21,920 83.8%	\$22,735 83.0%	\$26,378 83.1%	\$31,002(2000) 84.7%	100% [2004]	DET	
g) • Finance, Insurance, Real Estate % of national average	\$12,434 83.4%	\$24,938 84.0%	\$27,528 79.0%	\$33,831 75.4%	\$39,523(2000) 71.1%	100% [2004]	DET	
h) • Other Services % of national average	n/a	\$17,505 79.6%	\$19,534 80.3%	\$23,150 81.4%	\$26,623(2000) 79.1%	100% [2004]	DET	

<i>Vermont Indicator</i>		<i>Historical 1980</i>	<i>Historical 1990</i>	<i>VEPC Baseline 1992</i>	<i>1997</i>	<i>Current *</i>	<i>Goal ** [Year]</i>	<i>Data Source</i>	<i>Comments</i>
i)	• Government (local, state, federal) % of national average	n/a	\$22,052 86.9%	\$24,399 88.4%	\$28,058 87.9%	\$30,110(2000) 85.4%	100% [2004]	DET	
4.	Gross state product – Billions VT Productivity (GSP/employment)	\$4.89	\$11.56 \$ 37,000	\$12.34 \$ 40,100	\$14.589 (1996)	\$18.411(2000) \$67,195		US Bur. Economic Analysis	
5.	Dollar value of Vermont's international exports	n/a	n/a	\$2.73 billion (1993)	\$4.1 billion	\$2.83 billion		DED-ITP	
6.	Total Vermont Employment Vermont Unemployment Rate	n/a	289,200 5.0%	289,500 6.7%	314,050 4.0 %	322,650 3.6%	3.0%	DET	
a)	• Addison County Employment — Unemployment Rate	n/a	17,500 4.3%	17,200 7.5%	18,300 4.0 %	19,450 3.3%	3.0%	DET	
b)	• Bennington County Employment — Unemployment Rate	n/a	17,700 5.5%	17,500 6.5%	18,850 4.3 %	19,200 4.6%	3.0%	DET	
c)	• Caledonia County Employment — Unemployment Rate	n/a	13,350 6.1%	13,950 7.5%	14,400 5.4%	14,450 5.2%	3.0%	DET	
d)	• Chittenden County Employment — Unemployment Rate	n/a	73,950 4.0%	75,250 4.8 %	84,200 2.6%	88,400 2.4%	3.0%	DET	
e)	• Essex County Employment — Unemployment Rate	n/a	2,550 8.8%	2,600 9.3 %	2,650 6.9%	2,750 6.6%	3.0%	DET	
f)	• Franklin County Employment — Unemployment Rate	n/a	19,650 5.9%	20,150 7.2 %	22,050 4.1%	23,250 4.2%	3.0%	DET	
g)	• Grand Isle County Employment — Unemployment Rate	n/a	2,600 7.0%	2,700 8.8%	3,050 6.0%	3,350 5.1%	3.0%	DET	
h)	• Lamoille County Employment — Unemployment Rate	n/a	9,850 6.8%	9,850 9.1%	11,200 5.5%	11,200 4.9%	3.0%	DET	
i)	• Orange County Employment — Unemployment Rate	n/a	13,400 4.9%	13,350 5.7%	15,050 3.2%	15,400 2.7%	3.0%	DET	
j)	• Orleans County Employment — Unemployment Rate	n/a	10,950 7.7%	10,950 10.8%	11,350 8.0%	12,000 7.1%	3.0%	DET	
k)	• Rutland County Employment — Unemployment Rate	n/a	31,000 4.8%	29,850 8.1%	31,200 4.7%	30,150 4.1%	3.0%	DET	
l)	• Washington County Employment — Unemployment Rate	n/a	28,050 5.4%	27,600 7.5%	29,650 4.8%	30,800 3.8%	3.0%	DET	
m)	• Windham County Employment — Unemployment Rate	n/a	20,700 4.8%	21,200 5.9%	22,050 3.8%	21,650 3.3%	3.0%	DET	

<i>Vermont Indicator</i>		<i>Historical 1980</i>	<i>Historical 1990</i>	<i>VEPC Baseline 1992</i>	<i>1997</i>	<i>Current *</i>	<i>Goal ** [Year]</i>	<i>Data Source</i>	<i>Comments</i>
n)	<ul style="list-style-type: none"> Windsor County Employment — Unemployment Rate 	n/a	27,900 4.4%	27,350 6.2%	30,100 3.1%	30,550 2.8%	3.0%	DET	
People, Families, and Communities									
7.	State Population	511,000	563,000	571,000	589,000	608,827(2000)		Census Bureau	
8.	Median VT age (rounded) <ul style="list-style-type: none"> Number of Vermonters over 65 % of Vermonters over 65 	29 58,000 11.4%	33 66,000 11.7%	34 67,000 11.7%	36 72,213 12.26%	37.7 77,510 12.7%(2000)		Census Bureau	
9.	Adult substance abuse rate <ul style="list-style-type: none"> % binge drinkers % smokers 	n/a	<u>VT</u> <u>U.S.</u> 21% 15% 21% 23%	<u>VT</u> <u>U.S.</u> 15% 14% 22% 22%	<u>VT</u> <u>U.S.</u> 16% (97) 15% 23.3% 23.2%	<u>VT</u> <u>U.S.</u> 21% (00) 15%(99) 21.5%(00) 23.2%	12% [2010]	AHS	
10.	% High school seniors smoking daily	VT — n/a U.S. — n/a	VT — n/a U.S.— 18.5% (1991)	VT — n/a U.S. — 17.2%	VT — 20% U.S. — 22% (1995)	VT - 13%(01) U.S.19%(01)		AHS	
11.	Teen birth rate (per 1,000 15-19 year old women)	VT — 38.5 U.S.— 53.0	VT — 34.1 U.S.— 59.9	VT — 35.7 U.S.— 60.7	VT 29.9 (1996)	VT -23.4%(00) U.S.48.7% (00)		AHS	
12.	Low birthweight babies (Percent)	VT — n/a U.S. — 6.8%	VT -- 5.3% (1990) U.S. — 7.0% (1985)	VT - 5.6% (1992) U.S. - 7.4% (1996)	VT — 6.3% U.S. — 7.5%	VT -6.1%(00) U.S.7.6% (00)	5.0% [2010]	AHS	
13.	Idle teens (age 16-19, not in school, not in labor force)	VT— 5.6% U.S.— n/a	VT—6.4% U.S.—10.0%		Ten-year Census only	VT -8% (96-98) U.S.-9%(96-98)		AHS	
14.	Child abuse rate, all types, ages 0-17 (# of reports per 10,000 population)	VT— n/a U.S.— n/a	VT— 222 U.S.—432	VT—223 U.S.— 431	VT—159 U.S.—419	VT - 178(99) U.S.410(99)		AHS	
15.	Rate of violent crime (VDPS reported homicide, rape, robbery, assault, sex offenses, child abuse/neglect per 100,000 population)	VT— 179 U.S. — 581	VT — 127 U.S. — 732	VT — 110 U.S.— 758	VT — 120 U.S.— 611	VT -114(00) US506(00)		AHS	
16.	Percent covered by health insurance U.S. coverage	n/a	90.4% 86.1%	90.6% 85.3%	93.2% 83.9%	91.6%(00) 86.0%(00)		AHS	

Vermont Indicator		Historical 1980	Historical 1990	VEPC Baseline 1992	1997	Current *	Goal ** [Year]	Data Source	Comments
17.	Number of adults registered to vote Percentage of <i>registered</i> voters voting in statewide elections	311,919 75 %	350,349 62%	383,371 76 %	385,328 67.9% (1996)	427,354 69.5% (2000)		Vermont Secretary of State Elections Division	
Environment									
18.	Division Rate = Reduced + Revised + Recycled/Total Potential Waste	n/a	n/a	n/a	~35% (est)	33%(2000)	50% [2005]	ANR	
19.	% of VT's total assessed river and stream miles fully supporting designated water uses. % of assessed lake acres that fully support their designated uses	n/a	n/a	81% 70%	79% 52%	78% 58%		ANR	
20.	Number of acres of wetlands (not including Ag lands)	n/a	n/a	~300,000	~300,000	300,000(appr.)		ANR	
21.	Land use inventory (as % of land only -- water excluded)								
a)	• Percent of land base in cropland	11.1% (1982)	11.1% (1987)	10.8% (1992)	10.3	10.3 (1997)		NRCS	
b)	• Percent of land base in pasture	8.6% (1982)	6.6% (1987)	5.9% (1992)	5.7	5.7 (1997)		NRCS	
c)	• Percent of land base forested	75.8% (1982)	76.6% (1987)	76.5% (1992)	77.1	77.1 (1997)		NRCS	
d)	• Percent of land base built-up	4.4% (1982)	4.6% (1987)	5.5% (1992)	5.4	5.4 (1997)		NRCS	
Industry Group: Agriculture, Forestry, and Forest Products									
22.	Acres of land cropped (w/o hayland) Total Cropland Acres (w/hayland)	125,700(1982) 648,400(1982)	113,400(1987) 642,900(1987)	118,700(1992) 634,400(1992)	106,200 606,500	106,200(1997) 606,500(1997)		NRCS	
23.	Number of dairy cows	187,000	167,000	163,000	160,000	153,000		NE Ag Statistics	
24.	Pounds of milk produced (one gallon is approx. 8 lbs.)	2.25 bil. lbs.	2.37 bil. lbs.	2.51 bil. lbs.	2.600 bil. lbs.	2.67 bil lbs		NE Ag Statistics	
25.	Total number of farms (\$1,000+ of products sold per year) Land in Farms Total Vermont dairy farms (Jan. 1)	7,700 1.7 mil ac 3,572	6,500 1.4 mil ac 2,370	6,400 1.43 mil ac 2,325	6,600 1.33 mil ac 1,908	6,800 (2000) 1.34 mil ac 1,565(2001)		NE Ag Statistics VT. Dept Ag. Dairy Visis.	
26.	Total farm cash receipts • Milk receipts only	\$ 378.5 mil. \$ 302.0 mil.	\$ 459.1 mil. \$ 337.3 mil.	\$ 460.4 mil. \$ 343.2 mil.	\$487.2 mil. \$ 368.6 mil.	\$507.9 mil \$377.7 mil (2000)		NE Ag Statistics	
27.	Percent of statewide prime agricultural soils in production	50.6% (1982)	51.8% (1987)	51.3% (1992)	54.1	54.1 (1997)		NRCS	

Vermont Indicator		Historical 1980	Historical 1990	VEPC Baseline 1992	1997	Current *	Goal ** [Year]	Data Source	Comments
28.	Acres of agricultural land enrolled in the Use Value Appraisal Program Percent of potentially eligible agricultural land	11,900 1%	503,691 57%	498,156 55%	447,674 50.5%	481,574 54.0%		VT Tax Dept.	
29.	Acreage and Percent of eligible forest land enrolled in Use Value Appraisal	108,000 3%	908,795 27%	893,198 20%	997,430 25%	1,287,170 34.5%		VT Tax Dept.	
30.	Percentage and amount of funding for Use Value Appraisal	100% \$400,466	100% \$12,456,540	77% \$9,653,674	100% \$13,319,667	100% \$4,685,837		VT Tax Dept.	
31.	Forest harvest— • Lumber (million board feet) • Pulpwood (cords) % log volume exported	198.3 MBF 231,700 cords 18%	215.5 MBF 331,000 cords 35%	251.2 MBF 390,200 cords 30%	300.0 MBF 360,000 cords	246,819 MBF 356,601 cords 32%		VDFP FP & R	
32.	People employed in wood products industry (SIC codes 8, 24, 25, 26)	9,100 (est.)	7,916	7,681 (*91)	8,259	8,432(2000)		DET	
33.	Value of wood processing and forest harvest in Vermont	na/	n/a	n/a	\$1.2 billion (1993)	\$1.241 billion		VDFP	
34.	Assigned Risk Worker's Comp Rate-Non-Mechanized logging (per \$100 of payroll) – Effective 7/1/98 Rate in Maine – Effective 3/1/97 Effective 1/1/98 Rate in N.H. – Effective 1/1/97 Effective 1/1/98	\$22.07 (1986)	\$28.80	\$43.26 (1993)	\$28.50 (97) \$29.06 (98) \$44.60 \$29.20 \$39.76 \$41.16	\$32.15 (2001) \$36.02 (2002) \$34.96 (2001) \$50.98 (2002) \$41.96 (2001) \$33.39 (2002)		BI & S	
Industry Group: Travel, Tourism, Recreation, and the Arts									
35.	Annual visitors to Vermont	6.8 million	8.0 million	7.9 million (FY 1993)	8,750,000 (FY 1996)	13.9 million		VDTM	
36.	Annual skier days	3.1 million (1980-1981)	4.1 million (1990-1991)	4.2 million (1992-1993)	4.2 million (1997-1998)	4.1 million (2001-2002)		VSAA	
37.	Annual revenues subject to rooms and meals tax	\$318 million	\$697 million (FY 91)	\$722 million (FY 1993)	\$803.2 million (FY 96)	\$1050.82 million		VDTM	
38.	State Parks visitor days, May-October, day use and overnight	843,179	932,728	794,893	809,062 (1997)	800,829	1,000,000 [2004]	VTFP	
39.	Hunting/fishing licenses	272,477	236,234	257,413	251,014	276,332(2000)		VDFW	
Industry Group: Manufacturing & Construction									
40.	Total manufacturing employment	50,932	46,502	43,728	46,380	48,884(2000)		DET	

Vermont Indicator		Historical 1980	Historical 1990	VEPC Baseline 1992	1997	Current *	Goal ** [Year]	Data Source	Comments
41.	Percent of non-farm employment in manufacturing (U.I. covered)	31.9%	18.5%	17.8%	16.9%	16.5%		DET	
42.	Employment: Food processing (SIC 20)	2,350	3,559	3,683	4,121	4,393(2000)		DET	
43.	Employment: Industrial machinery & electronic equipment (SICs 35 & 36)	18,500	15,350	12,763	13,380	15,120(2000)		DET	
Other Industry Groups									
44.	Number of licensed captive insurance companies	1	209	257	385	527		DED	
45.	Vermont tax revenues paid by captive insurance companies	n/a	\$ 5.79 million	\$ 8.68 million	\$ 9.5 million	\$12.6 million		DED	
46.	Employment in Finance, Insurance, and Real Estate (SIC section H.)	8,050 (est.)	12,540	11,758	11,785	12,020(2000)		DET	
47.	Total federal, state, and local government employees, excluding education	17,125	21,811	21,562	20,600	22,077(2000)		DET	
Policy Area One: Regulation									
48.	% of Act 250 District Commission permit decisions made w/i 120 days	n/a	n/a	82 %	83%	81%		E-Board	
49.	Act 250 approval rate	98.1 % (1970-1990)	98.1 % (1970-1990)	98.5 % (1990-1993)	97.5%	98.5%		E-Board	
50.	Dept of Environmental Conservation permits issued in programs with performance standards in place	n/a	n/a	5,107	7,450	6,336		ANR	
51.	% of permits meeting the DEC-established performance standards	n/a	n/a	87%	94%	92.7%		ANR	
52.	Number of reported workplace injuries / Injuries per 100 employees			24,633 10.0	25,099 (FY 1997) 9.49 (FY 1997)	24,419 7.1%		L & I	
53.	Fire prevention permit plans reviewed Average time for permit processing Median permit processing time			2,250 14 days n/a	2,250 24 days 12 days	2243 18 days 14 days		L & I	
Policy Area Two: Stable and Competitive Tax System									
54.	Total state general fund revenues (Fiscal Year)	\$218.5 mil (FY 1980)	\$565.0 mil. (FY 1990)	\$635.5 mil. (FY 1992)	\$759.1 mil. (FY 1997)	\$904.7 mil (FY 2001)		State Reports	

Vermont Indicator		Historical 1980	Historical 1990	VEPC Baseline 1992	1997	Current *	Goal ** [Year]	Data Source	Comments
a)	• Personal Income tax (% of General Fund revenues)	\$83.2 million (38.1%)	\$250.9 mil. (44.4%)	\$271.4 mil. (42.7%)	\$323.1 mil. (42.5 %)	\$458.1 mil (50.6%)		State Reports	
b)	• Sales and Use taxes (% of General Fund revenues)	\$40.8 million (18.7%)	\$136.0 mil. (24.1%)	\$157.0 mil. (24.7%)	\$183.8 mil. (24.2 %)	\$215.2 mil (23.8%)		State Reports	
c)	• Rooms and Meals taxes (% of General Fund revenues)	\$13.7 million (6.3%)	\$47.6 mil. (8.4%)	\$60.5 mil (9.5%)	\$64.1 million (8.4 %)	\$80.3 mil (8.9%)		State Reports	
d)	• Corporate and Business Taxes (% of General Fund revenues)	\$38.8 million (17.8%)	\$66.2 mil. (11.7%)	\$74.9 mil. (11.7%)	\$84.5 mil. (11.1 %)	\$40.7 mil (4.5%)		State Reports	
55.	Vermont State Bond Ratings: • Standard and Poor's: • Fitch's Investor Service: • Moody's Investor's Services:		AA AA AA	AA minus AA AA	AA minus AA AA	AA+ AA+ Aa1		Vermont State Treasurer	Standard and Poor upgraded Vermont's rating 9/11/01
56.	Local property taxes	\$ 202.5 mil.	\$ 521.3 mil. (FY 1990)	\$569.2 mil. (FY 1992)	\$678.7 (FY 1996)	\$869.6		Div. of Property Valuation	
Policy Area Three: Economic Assistance & Community Development Programs									
57.	Number of jobs created/retained by Economic Development Community Development Block Grants	n/a	197	323	192	282		DHCA	
58.	Small Business Development Center clients (post 1992 reorganization)	n/a	n/a	763 (1992-93)	1,557 (1997-98)	1179	1099 ('02-'03)	SBDC	Decrease in clients offset by increase in counseling hours per client
59.	Completion of Vermont's GIS Spatial Data Infrastructure (Data continually needs updating)	0%	20%	40%	75%	90% (2002)	100%	VCGI	
60.	New jobs created by VEDA Subchapter 2,3,4, & 5 loan approvals VEDA's investment per job created Subchapter 2,3,4, & 5 loan approvals	n/a	n/a	n/a	699 (FY 97) \$14, 238	438 \$19,396		VEDA	
Policy Area Four: Education and Work Force Training									
61.	Percent of population (25 years +) with high school graduation VT/[national] Percent of population (25 years +) with bachelors degree VT/[national]	n/a	80.8 % [75.0 %] 24.3 % [20.3 %]	n/a	n/a % [82.1 %] n/a % [23.8 %]	90% [33%] 28.8% [17%]		U.S. Census Bureau	

<i>Vermont Indicator</i>		<i>Historical 1980</i>	<i>Historical 1990</i>	<i>VEPC Baseline 1992</i>	<i>1997</i>	<i>Current *</i>	<i>Goal ** [Year]</i>	<i>Data Source</i>	<i>Comments</i>
62.	Vermont high school dropout rate (grades 9 to 12)	4.6%	5.1% (1989-90)	4.6% (1992-93)	4.96% (1996-97)	4.66%		Dept. of Educ.	
63.	SAT participation rate (of graduating Vermont seniors) • Mean VT Verbal scores • Mean VT Math scores	n/a 427 467	68% ('90 - '91) 424 466	68% ('92 - '93) 426 467	69% ('96 - '97) 508 502	69% 511 506		Dept. of Educ.	Measuring method changed in 1994.
64.	State appropriations per \$1,000 of personal income for higher education (Direct operating funds and financial assistance)	\$8.46 (VT—FY 80) \$11.16 (U.S. Avg.)	\$7.03 (VT—FY 90) \$9.74 (U.S. Avg.)	\$5.64 (VT—FY 92) \$8.62 (U.S. Avg.)	\$4.41 (VT—FY 97) \$7.65 (U.S. Avg.)	\$4.84 VT – FY2000 \$8.58 (U. S. Avg.)		VSC	
65.	Enrollment in public and private institutions of higher education	30,628	36,433	36,012	35,785 (Fall '96)	20,417		VSC	
66.	Total employment in higher education	6,791	8,997	9,365	9,321	10,181(2000)		DET	
Policy Area Five: Telecommunications									
67.	Percentage of households with telephone service					95.6%	98%	FCC	
68.	Percentage of households with internet connections					46.1% (2000)	80% (2008)	Census Bureau	
Policy Area Six: Energy Policy									
69.	Avg. retail power cost (cents/kwh) [U.S.] • VT Industrial [U.S.] • VT Commercial [U.S.] • VT Residential [U.S.]		8.1 [6.6] 6.7 [4.8] 8.5 [7.3] 8.6 [7.8]	8.9 [6.9] 7.3 [4.9] 9.6 [7.7] 9.7 [8.2]	9.6 [6.9] 7.4 [4.6] 10.1 [7.6] 11.0 [8.4]	11.3 [8.4] 8.2 [5.6] 12.3 [9.4] 12.3 [8.4]		DPS & Edison Electric Institute	
70.	Cumulative participation rate in Vermont market-driven energy efficiency programs	nil	~5%	~20%	40 %	14%		DPS	
71.	In-state renewable energy use as a percent of total state energy use	14%	13%	12%	15.8%	15.0%		DPS	
Policy Area Seven: Transportation									
72.	Number of passengers boarding at Burlington International Airport	207,075	425,750	424,167	431,934 (FY 1997)	520,000		Burlington Airport	
73.	Total Vehicle Miles Traveled on Vermont's roads and highways	1.525 billion miles	2.100 billion miles	2.175 billion miles	2.370 billion miles	6.554 billion miles (2000)		AOT	

<i>Vermont Indicator</i>		<i>Historical 1980</i>	<i>Historical 1990</i>	<i>VEPC Baseline 1992</i>	<i>1997</i>	<i>Current *</i>	<i>Goal ** [Year]</i>	<i>Data Source</i>	<i>Comments</i>
74.	Percent of paved roads in “poor” condition	31% (old method)	26% (old method)	29% (old method)	53% (1997) (new method)	14%	24%	AOT	
75.	Average paved highway Condition Rating (0 to 100)	n/a	n/a	n/a	59 (1997)	69%	60%	AOT	
Policy Area Eight: Science & Technology									
76.	Patents issued to Vermont residents (Number of VT residents listed)	84 n/a	145 n/a	133 214	286 (1996)	505 (2000)		U.S. Patent Office	
77.	Vermont EPSCoR Phase 0 proposals	n/a	n/a	35	28 (1997)	32		EPSCoR	
78.	National Science Foundation award to Vermont EPSCoR	n/a	\$2.5 million (1986-1991)	\$1.5 million (1993)	\$1.488 million	\$1 million		EPSCoR	

APPENDIX A: GLOSSARY OF ACRONYMS

AAPs	Acceptable Agricultural Practices	NHS	National Highway System
ABCV	Applied Center for Biotechnology of Vermont	NIST	National Institute of Standards and Technology
ABE	Adult Basic Education	POETS	Partnership of Environmental Technology and Science
ACCD	Agency of Commerce and Community Development	PSB	Vermont Public Service Board
ADCA	Agency of Development and Community Affairs (reorganized into ACCD July 1, 1996)	RDC	Regional Development Corporation
AHS	Agency of Human Services	REDWG	FRAC Rural Economic Development Work Group
ANR	Agency of Natural Resources	RPC	Regional Planning Commission
AOT	Agency of Transportation	SBA	Small Business Administration
AVIC	Association of Vermont Independent Colleges	SBDC	Small Business Development Center
BI&S	Department of Banking, Insurance & Securities	SBIR	Small Business Innovation Research Program
BMPs	Best Management Practices Regulations	STIP	State Transportation Improvement Plan
BOE	Vermont Board of Education	STW	School-To-Work Initiative
CAFR	Vermont Comprehensive Annual Financial Report	TRC	Travel Recreation Council
CDBG	Community Development Block Grant Program	TSAC	Tower Siting Advisory Committee
DAFM	Vermont Department of Agriculture, Food & Markets	TTCV	Telecommunications Technology Council of VT
DEC	Vermont Department of Environmental Conservation	UCC	Uniform Commercial Code
DED	Vermont Department of Economic Development	USSCS	U.S. Soil Conservation Service
DET	Vermont Department of Employment and Training	UVM	University of Vermont
DFPR	Vermont Department of Forests, Parks & Recreation	VAPDA	Vermont Association of Planning and Development Agencies
DFM	Vermont Department of Finance and Management	VARDD	Vermont Association of Regional Development Directors
DHCA	Vermont Department of Housing and Community Affairs	VBR	Vermont Business Roundtable
DHP	Vermont Division of Historic Preservation	VBSR	Vermont Businesses for Social Responsibility
DOE	Vermont Department of Education	VCFS	Vermont Center for Food Science
DPS	Vermont Department of Public Service	VCGI	Vermont Center for Geographic Information
DSP	VEDA Agricultural Debt Stabilization Program	VCRD	Vermont Council on Rural Development
EDI	Electronic Data Interchange	VDTM	Vermont Department of Tourism and Marketing
E-Board	Vermont Environmental Board	VEDA	Vermont Economic Development Authority
EPSCoR	Experimental Program to Stimulate Competitive Research	VEPC	Vermont Economic Progress Council
FRAC	Forest Resources Advisory Council	VDFP	Vermont Department of Forests and Parks
FY	Fiscal Year	VDFW	Vermont Department of Fish and Wildlife
GAAP	Generally Accepted Accounting Practices	VHCB	Vermont Housing Conservation Board
GASB	Government Accounting Standards Board	VHEC	Vermont Higher Education Council
GIS	Geographic Information Systems	VIT	Vermont Interactive Television
HRIC	Human Resources Investment Council	VLCT	Vermont League of Cities and Towns
HUD	U.S. Department of Housing and Urban Development	VLS	Vermont Law School
ITP	International Trade Program	VMEC	Vermont Manufacturing Extension Center
ISDN	Integrated Services Digital Network	VOSHA	Vermont Occupational Safety and Health Act
ISTEA	Intermodal Surface Transportation Efficiency Act	VPEP	Vermont Partnership for Economic Progress
JFO	Joint Fiscal Office	VSAA	Vermont Ski Areas Association
L&I	Vermont Department of Labor and Industry	VSAC	Vermont Student Assistance Corporation
LCAR	Legislative Committee on Administrative Rules	VSEC	Vermont Science and Education Center
L RTP	Agency of Transportation's Long Range Transportation Plan	VSC	Vermont State Colleges
MOU	Memorandum of Understanding	VTC	Vermont Technical College
NERC	New England Rail Consortium	VTP	Vermont Training Program
NETI	New England Transportation Initiative	VWMA	Vermont Wood Manufacturers' Association
		WIBs	Workforce Investment Boards
		WTO	Vermont World Trade Office

APPENDIX B: 2002 PLANNING PROCESS**May 24, 2001****Topic: Housing**

Presenter: Kathy Beyer, Deputy Commissioner, DHCA

June 28, 2001**Topic: Housing and the economy**

Presenter: Jeff Carr, Economic and Policy Resources, Inc.

July 31, 2001**Action:** Surveyed 310 stakeholders and partners requesting input on topics to be addressed in 2002 plan.**August 29, 2001****Action:** VEPC annual retreat. Long range economic planning discussion, including survey results, led to identification of priorities for 2002 plan.**October 25, 2001****Topic: Telecommunications**

Presenter: Chris Campbell, DPS

November 29, 2001**Topic: Workforce Development**Presenters: Steve Gold, Commissioner, DET
Chip Evans, Executive Director, HRIC**Topic: Permitting and Regulations**

Presenters: Richard Phillips, Director, Environmental Assistance Division, DEC/ANR; Curt Carter, Permitting Specialist, DED

December 20, 2001**Topic: Telecommunications**

Presenters: Louise McCarren, President, Verizon Vermont;

Katie O'Connor, Economic Development Director, Verizon Vermont; Robert Frost, General Manager, Adelphia Business Solutions; Julie Ladieu-Walton, Vermont Telephone (VTel)

Topic: Housing

Presenters: Sarah Carpenter, Executive Director, VHFA; Gus Seelig and Polly Nichol, VHCB; Richard Williams, Vermont Housing Authority; Greg Brown, Commissioner, DHCA; Professor John Vogel, Dartmouth College

January 22, 2002**Action:** State agency heads contacted as step one in process to update progress made toward VEPC 1996 recommendations.**January 24, 2002****Topic: Workforce Development**Presenters: Chip Evans, Executive Director, HRIC
Tom Douse, Deputy Commissioner, DET
Donna Bombard, School-to-work Coordinator, LCRCC
Phil Fagan, Director, Vermont Training program, DED**January 25, 2002****Action:** Agencies and other organizations contacted requesting updates to economic indicators in 2002 report.**February 8, 2002****Topic: Housing**Presenters: Professor John Vogel, Dartmouth College
Brenda Torpy, Burlington Community Land Trust**February 20, 2002****Action:** Information reminder letters sent to agencies.**February 28, 2002****Topic:** Permitting and Regulations

Presenters: Dale Rocheleau, Environmental and Government Affairs Attorney, Downs Rachlin & Martin
Kevin Dorn, Executive Director, Homebuilders and Remodelers Association of Northern Vermont
Sara Cowan, Loan Officer, National Bank of Middlebury and Chair, Commercial Lending Committee, Vermont Banker's Association.

**Topics: Permitting and Regulations/Housing/
Telecommunications/Workforce Development**

Presenters: Bill Schubart, CEO, Resolution, Inc.
Bill Maris, President & CEO, Burlee.com
John O'Kane, Government Affairs, IBM
Katie Camardo, Director of Operations, Vermont Teddy Bear

March 21, 2002

Topic: Permitting and Regulations

Presenters: Mark Sinclair, Conservation Law Foundation
Steve Holmes, VNRC
Mike Zahner, Environmental Board

March 21, 2002

**Topics: Permitting and Regulations/Housing/
Telecommunications/ Workforce Development**

Presenter: Art Woolf, President, Northern Economic Consulting

April 25, 2002

Topic: Workforce Development

Presenters: Robert Clarke, Chancellor, Vermont State Colleges
Everett Harris, Vermont Department of Education

August 30, 2002

Action: Draft plan available. Public notice distributed.

August 29, 2002

Action: VEPC annual retreat included feedback on first draft of 2002 plan.

September 20, 2002

Action: Public Hearing on 2002 plan held via all Vermont Interactive television sites and carried on some local cable access stations.

APPENDIX C: VEPC ENABLING STATUTE

32 V.S.A. Chapter 151 § 5930j

Vermont economic progress council; long-term economic development planning

§ 5930j. Vermont economic progress council; long-term economic development planning

(a) The general assembly finds that long-term economic development planning is needed to build a diverse and sustainable economy, and to increase the well-being of Vermonters and their communities, without compromising the quality of our environment. This section is intended to enable Vermont to create and continually revise a long-term economic planning process. The general assembly further finds that the views of people from the public and the private sector, including Vermonters from business, education and government, are essential in order to develop a process for long-range economic planning and job creation. The Vermont Economic Progress Council will be a forum for government and the private sector to work together in the public interest to create economic development plans for a diverse, sustainable economy for Vermont.

(b) The economic progress council shall advise the governor and the general assembly on long-term economic development planning.

(1) In fulfilling its economic development planning responsibilities, the council may:

(A) solicit the assistance of individuals and groups with interests or expertise in the particular subject before the council;

(B) request the assistance and cooperation of any state or local agency or governmental unit in collecting economic development information and conducting economic development planning. Such state and local agencies and governmental units shall provide reasonable assistance to, and cooperate with the council in the discharge of its responsibilities. The council shall consult and cooperate with the telecommunications technology council of Vermont, and

any other council or committee established by law or executive action relating to economic development;

(C) appoint one or more task forces, composed of individuals from the public and private sectors, to assist the council in its economic development planning;

(D) perform such other activities as are necessary to carry out the purposes of this chapter;

(E) subject to the provisions of section 5 of this title, accept grants, gifts, donations or other things of value from a donor which is a qualified nonprofit organization under Section 501(c)(3) of the federal Internal Revenue Code for sums up to \$200,000.00 to assist in defraying the costs of fulfilling the purposes of this chapter;

(F) execute contracts or provide grants, regarding professional or administrative services, to fulfill the purposes of this chapter;

(G) establish and administer a special fund, as provided under subchapter 5 of chapter 7 of this title, to be known as the Vermont economic progress council study fund for the purposes of fulfilling subdivisions (E) and (F) of this subdivision (1). Revenues to the fund shall be those funds collected pursuant to subdivision (E) of this subdivision (1); and

(H) before January 15 of each year, report to the general assembly the names of each donor and the amount donated under subdivision (E) of this subdivision (1), the names of the contractors and grantees and the amounts contracted for or granted under subdivision (F) of this subdivision (1), which list shall include the donations made during the fiscal year to date, as well as all donations made during the previous fiscal year.

(2) The council shall report to the governor and the general assembly on or before December 15 of each year with its recommendations for implementing the state's long-term economic development planning agenda. Such recommendations shall contain goals, anticipated budgets, evaluation mechanisms, and proposals for legislation where necessary. (Added 1997, No. 147 (Adj. Sess.), § 214.